The demand review

Integrated business management means managing all the business resources via the sales and operations planning process. In the third of a six part series, John Schorr explains the demand review process.

In the first article of this series on sales and operations planning (June 2007), we defined S&OP as an integrated business management process through which the executive/leadership team continually achieves focus, alignment, and synchronization among all the functions of the organization. This includes sales and marketing, operations, supply chain management, finance, and product development.

In part two (July 2007), we described the first step of the S&OP process, the product management meeting. This step covers the future direction of the product portfolio. It includes new products, additions to the product lines, product improvements, repositioning of current
products, and end-of-life rationalization of older products.

The second step of the S&OP process is the demand review (Figure 1), which is the focus of this article. The output of the demand review is a timely aggregate unconstrained demand plan which becomes the basis for the integrated set of planning numbers used throughout the sales and operations planning process.

The key to this step is in having an excellent demand management process. Demand management is the function of recognizing all of the demand for the products and services that are required to support the marketplace. Demand management encompasses the activities of demand planning, order entry, and order promising.

Demand elements include customer orders, sister division requirements, samples, displays, spare parts, and internal needs, such as branch warehouse/distribution center requirements, interplant orders, and aftermarket and service requirements. Service demand includes that which is required for implementation support and maintenance or repair support.

The major components of demand management include the demand plan, the assumptions behind the plan, and the action plans necessary to execute the plan. Specifically, action plans are created to assure that the anticipated demand happens. The plans also help to prioritize the demand when there is a shortage of supply. And when demand exceeds supply, the plan defines the policy that determines how the product is to be allocated among the various customers.

There are four major steps in the demand management process:

1. **Create the demand plan.** The first thing is to predict what your customers are going to buy. A demand plan is the forecast plus the assumptions behind the forecast plus the action plans to make the demand plan happen.

   There is a significant difference between a forecast and a demand plan. A forecast is typically a number generated either by a statistical forecast package or developed manually based on history. Historical data is projected into the future using a series of algorithms to identify patterns and trends. By connecting where you
have been to where you are going, the statistically derived forecast gives a base set of numbers from which to work.

The one thing we know about forecasts, however, is that they are constantly changing. A statistically generated forecast by itself is insufficient to generate valid demand plans. The forecast itself may not be incorrect, but the assumptions behind the numbers are usually the cause of error. These assumptions are typically about the customer, the market size, market share projections, the competition, the economy, the leading indicators, product availability, and your company’s sales and distribution resources.

The accuracy of these assumptions needs to be measured to determine which assumptions were correct and which were not. These findings foster a better understanding of what drives demand and ultimately leads to the creation of an improved and valid demand plan.

To develop this plan, an organization requires multiple views and inputs of the demand, among them:

- The marketing view. This includes market plans, pricing plans, promotions, competitive analysis, economic analysis, and external factors. The marketing view tends to be longer range in scope.
  - The sales view. This includes sales plans, territory plans, customer plans, and incentive plans. The sales view tends to be a shorter range perspective.
  - The product management view. This includes the plans to develop the brand and products as well as the future view of the products.
  - The customer view. This includes the customers’ selling and marketing plans, promotions, buying plans, and schedules.
  - The statistical view. This includes the statistical forecast and any modifications to the forecast needed to correct for abnormal demands or known changes to the forecast over time.
  - The business plan and strategy view. This enables us to see the gaps in revenue between the demand plans and the business plan.

When all of these inputs are collected, analyzed, and included in the demand plan, the demand plan is in reality the collective, collaborative best judgment of the sales and marketing functions of the business.

### 2. Communicate the demand plan details

The demand plan is the basis for the integrated set of planning numbers used throughout the sales and operations planning process, therefore it is essential to share the demand plan’s details at both the aggregate and mix levels to all the functions of the business. It needs to be communicated to the sales organization that has to execute it, to the supply organization that has to make it, and the finance organization that has to cost it out and compare it to the business plan.

### 3. Create a consensus plan

In the third step of the demand management process, the objective is to influence the key players to develop a consensus demand plan. The sales organization typically talks in terms of customer or territory plans while marketing talks in terms of market or product plans. Because they see the world from different perspectives, their views of the future are often not in alignment. The demand management process, properly executed, brings these two views together where they jointly develop a demand plan that marketing can support and sales can commit to sell.

### 4. Manage the exceptions

The fourth element focuses on the timely and effective management of exceptions, such as abnormal demand, and to control areas such as the allocation of product. When abnormal demand occurs, demand management must decide how to accommodate this demand while still protecting its regular customers.

The demand review meeting in the sales and operations planning process reviews and considers inputs such as business strategy, sales forecast, customer plans, market intelligence, statistical projections, and the product management plans. The product portfolio changes developed in the first step of the S&OP process are included (Figure 2), as these inputs are the basis for the integrated set of planning numbers used throughout the sales and operations planning process.
family and detail by sub-family with the reasons for changes summarized, the assumptions documented, and vulnerabilities and opportunities to the plan noted. The unconstrained demand is the amount of demand for the product or service assuming there are no constraints. Unconstrained demand, however, is constrained only by the company's strategies and the marketing and sales budget. Given the strategies and budgets, unconstrained demand is what sales realistically projects that it can sell.

In the management business review meeting (step five of the five step sales and operations planning process), however, senior management may choose to constrain the demand and limit what sales can sell. The objective and goal of the demand review meeting is to develop a demand plan of what the company realistically expects to sell in the marketplace. It is senior management's role to either provide the necessary capacity or constrain the demand to achieve the defined business objective.

The demand review meeting of the sales and operations planning process establishes a valid demand plan that is agreed to by both sales and marketing, identifies the gaps to the business and strategic plans, develops the necessary plans and actions that will eliminate or narrow those gaps, and which will enable the company to effectively execute its business plan.

The supply review meeting, from which valid supply plans are developed to execute the demand plan, will be the next topic of discussion in this series on sales and operations planning/integrated business management.