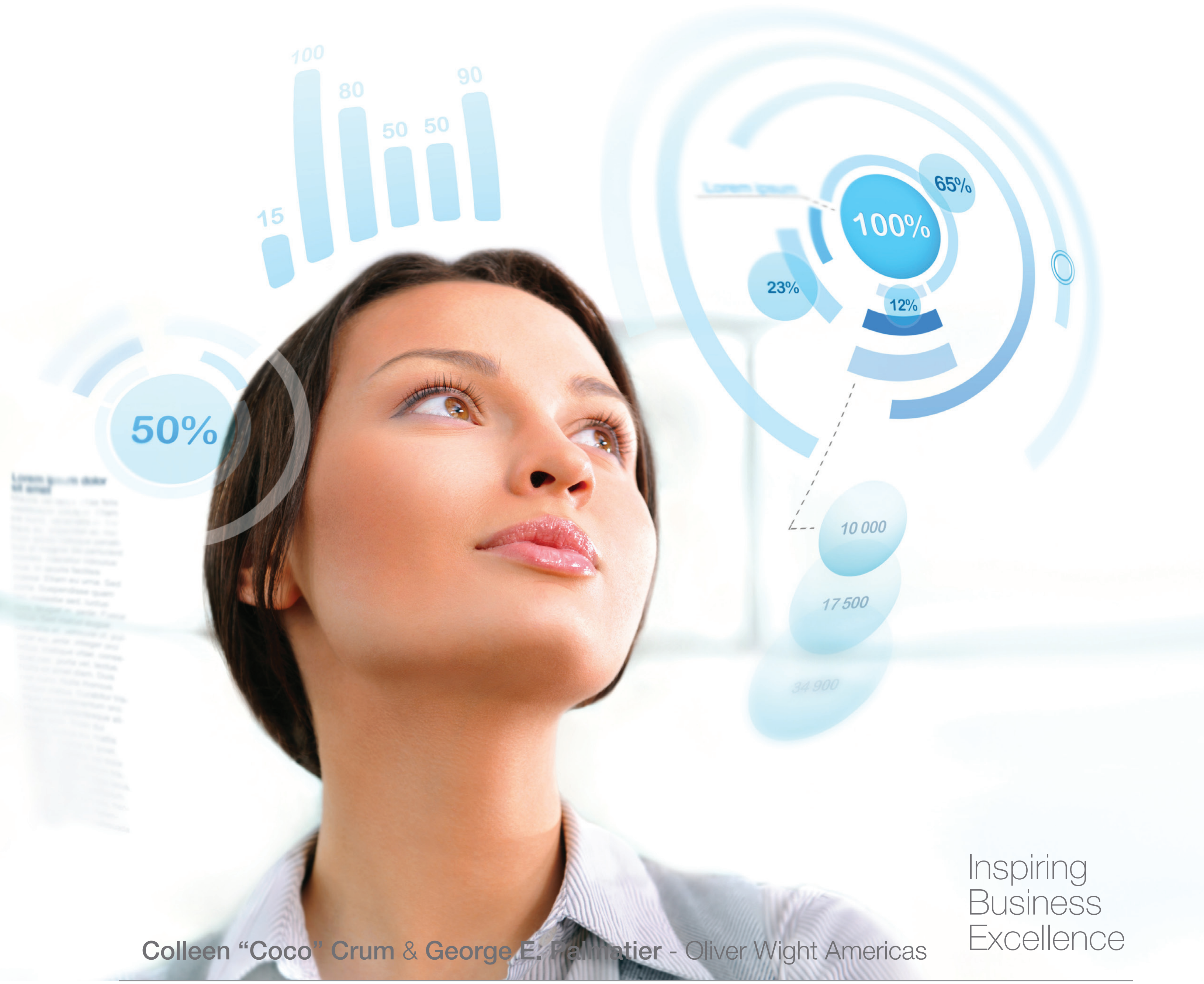
Informative guides on industry best practices

OLIVER WIGHT PAPER series

Demand Management:

Lessons Learned



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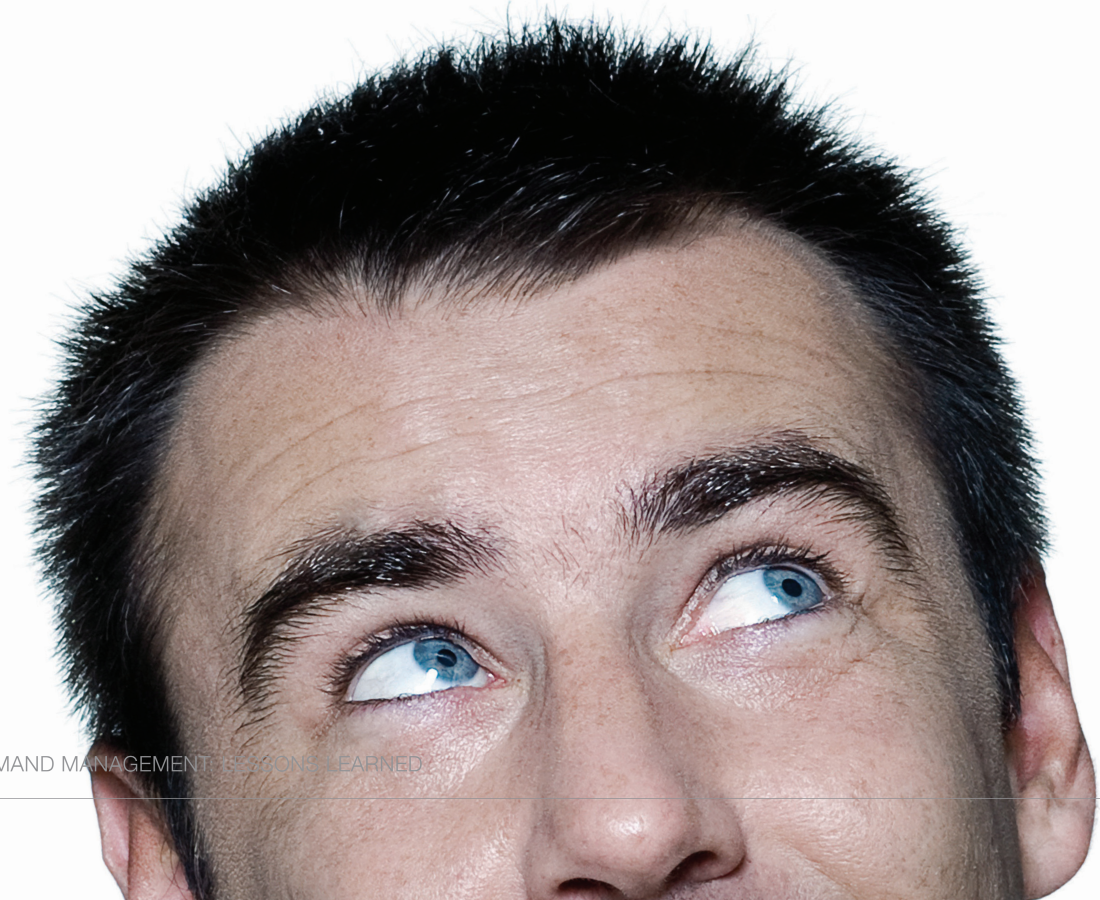
Inspiring
Business
Excellence

A wireless telephone manufacturer successfully implemented a demand management process throughout its global organization in less than one year. A pharmaceutical manufacturer achieved mediocre results implementing demand management in an effort that lasted more than two years. A paper producer implemented a demand management process within three months as part of its sales and operations planning process.

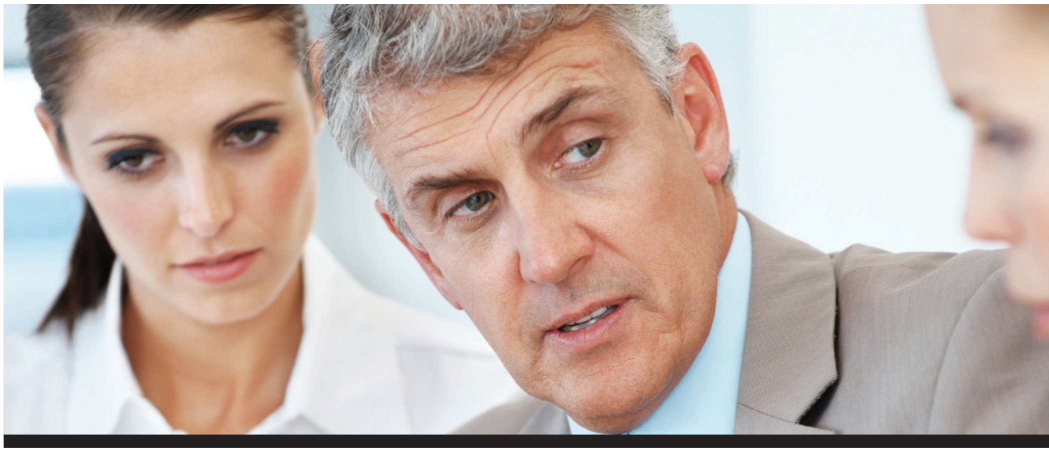
"Why do some companies succeed

and others fail in their efforts to effectively employ demand management?"



Based on the lessons learned by Oliver Wight consultants in helping companies, large and small, implement demand management processes over the past 20 years, the keys to success can be summed up as follows:

- Commitment from senior management
- Leadership by sales and marketing management
- Full-time demand manager
- Timely decision making
- Effective communications with the supply organization



COMMITMENT FROM SENIOR MANAGEMENT

In the case of the wireless telephone manufacturer, a member of the company's senior management team spearheaded the implementation of the sales and operations planning and demand management processes. This individual was well-respected by the company's board of directors, the company president, and the division general managers. He was well-regarded for his ability to manage the details required to successfully implement sales and operations planning and demand management. He had a proven track record in leading people through change.

He remained fully engaged in the implementation and did not delegate the management of the implementation, particularly the interaction with the senior level management. Because of his high credibility, he did not have difficulty gaining access to other senior staff members when needed to facilitate progress and problem solve.

The project had well-defined objectives, milestones, and desired results. The senior management team understood their individual roles in ensuring that the groups they led participated in the implementation, adopted the new processes, and achieved the desired results.

In less than twelve months, this company implemented demand management and sales and operations planning globally in every division. The company performed to industry-recognized best practices, which enabled consistency in the process in each division.

The successful implementation is cited as being a contributing factor in enabling the company to return to a profit position after operating several quarters in the red.

> *"It was observed that the sales management and sales people spent more time in crises mode, chasing orders"*

LEADERSHIP BY SALES AND MARKETING MANAGEMENT

In the case of the pharmaceutical manufacturer, the company's project team worked diligently to implement demand management. The project was part of a company-wide effort to employ supply chain management and implement a new enterprise resource planning system.

The company's marketing management readily embraced the demand management process. Sales management was less enthusiastic, especially upon learning they would need to communicate their sales plans on a monthly basis as part of the process.

The demand management process was implemented during a downturn in business. It became a common excuse to blame the marketplace and customers for the inability to predict sales. Likewise, when sales materialized, the supply organization was criticized for not having the inventory or the manufacturing responsiveness to meet the customers' requested delivery dates.

Ironically, with greater participation in the demand management process by the sales management and sales force, the sales and operations planning process would have ensured that:

a) Product was available when it was anticipated that customers expected delivery, and/or

b) The sales team would have known when there were supply problems and could have made more realistic promises to their customers.

It was observed that the sales management and sales people spent more time in crises mode, chasing orders within the supply organization and soothing customers, than it would have taken to communicate their sales plans as part of the demand management process.

The enterprise resource planning system was successfully implemented from a technology point of view, although the implementation exceeded its original time line by more than one year. The processes to optimally operate enterprise resource planning, including demand management, were never fully implemented, however.

The company did not achieve its sales targets or profit goals. The president and vice president of sales were eventually replaced. The company recently has expressed interest in implementing the processes required to support enterprise resource planning using best practice standards.

FULL-TIME DEMAND MANAGER

For the paper company, one of the keys to implementing demand management and sales and operations planning in three months was the assignment of a full-time demand manager. The company recognized that the demand management effort required full-time attention. The company also recognized that the demand manager needed to be closely linked with their sales organizations, which were called business development groups.

The company's vice presidents of the business development groups took the lead in defining what was expected from the sales and operations planning and demand management processes. Through monthly demand review meetings, the vice presidents guided incremental improvements in the communications processes and information requirements. They also ensured that the demand review meetings addressed the sales and marketing issues that would improve the company's sales revenue performance.

The demand manager worked as a production planning manager prior to accepting the demand manager position. Her knowledge of the supply organization was extremely useful in performing the daily and weekly demand/supply synchronization at two production facilities.

The challenge for the demand manager was in making the mental shift required to be a demand advocate rather than a supply advocate. This was accomplished by close one-on-one work with the sales managers and sales teams in each business development group. Working closely together to refine the demand plan, the demand manager gained a better understanding of customer and marketplace issues.

Likewise, the sales teams came to understand the value of communicating their sales plans and market intelligence.

> *"The ability to make timely decisions starts with a demand plan, supported by assumptions and the identification of risks, vulnerabilities, and opportunities"*

The investment in a full-time demand manager was richly rewarded. The company implemented sales and operations planning in three months. The demand manager became responsible for developing the information packet for the executive sales and operations planning meeting as well as the demand review meetings.

By better understanding demand and market conditions, the company identified periods of time when it would have insufficient capacity to meet customer demand and other periods of time when it would have excess capacity. This knowledge enabled the company to shift the production of certain products to other facilities and to reschedule maintenance shutdowns to ensure that demand and supply remained in balance.

The process also made excess inventory visible, and the company implemented tactics to deplete the inventory. This further enhanced their cash position.

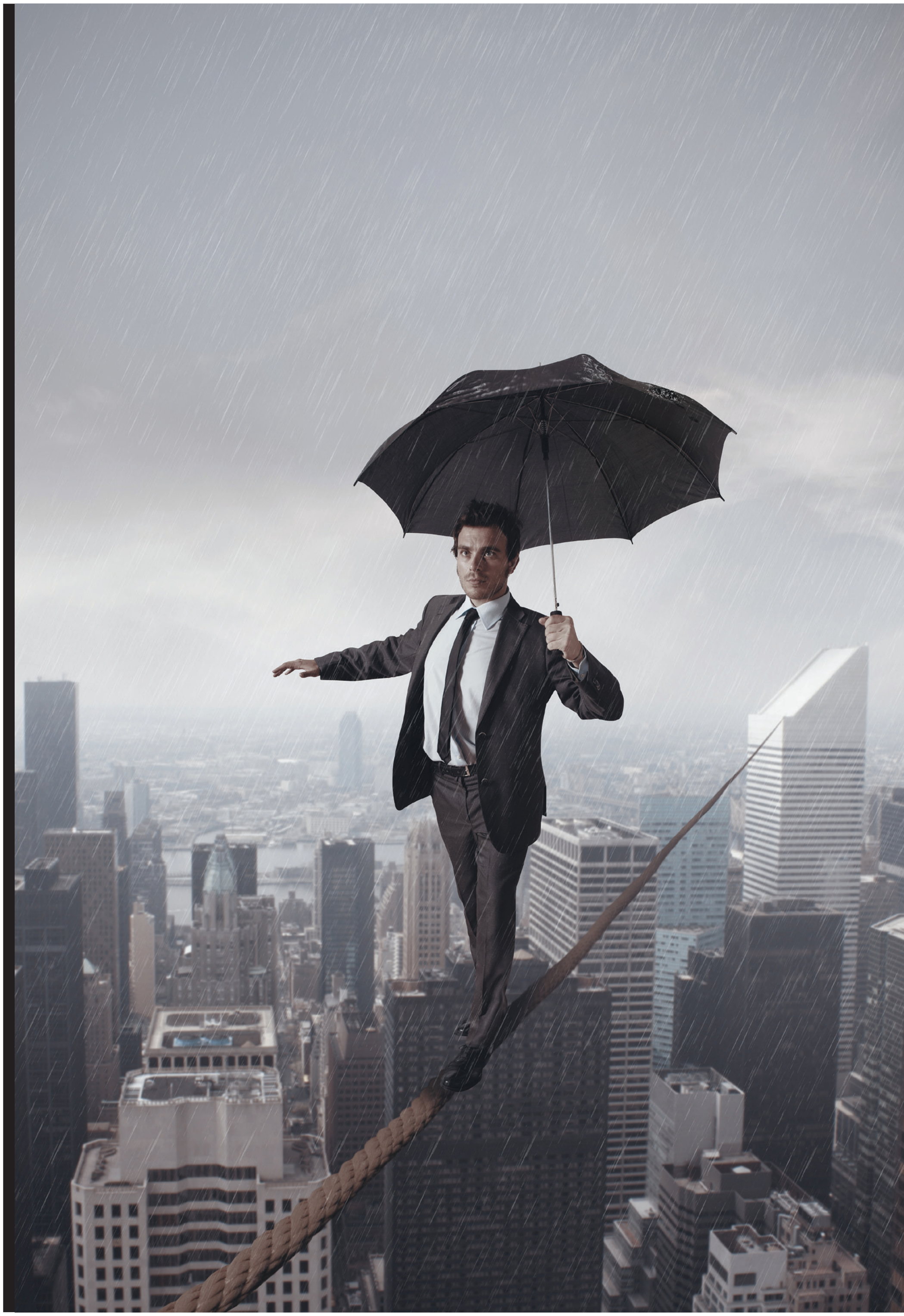
TIMELY DECISION MAKING

One executive at the paper manufacturer observed that the sales and operations planning and demand management processes enabled the executive team to make decisions earlier. In the past, the company waited until it was too late to effectively respond to issues like excess or under capacity.

The ability to make timely decisions starts with a demand plan, supported by assumptions and the identification of risks, vulnerabilities, and opportunities. For the paper manufacturer and wireless telephone manufacturer, a critical element of the demand planning process was reviewing the assumptions upon which the plan was based. This review resulted in the development of alternative plans to mitigate risks and vulnerabilities as well as to take advantage of emerging opportunities.

Both of the companies came to realize that documentation of the assumptions and identifications of risks, vulnerabilities, and opportunities required the ability to perform "what if" or scenario planning. This type of planning could not be accomplished with a parttime demand planner, a disengaged sales team, or unsupportive senior management. Visible and reliable information (both demand as well as supply) improved the quality of the decision making for both companies.

An executive for the paper manufacturer lamented not having the sales and operations planning and demand management processes in place a year earlier. He believed that the company would not have missed identifying a downturn in a critical market and could have prevented an unplanned buildup of inventory that impacted the company's cash and profit position.



EFFECTIVE COMMUNICATIONS WITH THE SUPPLY ORGANIZATION

When a full-time demand manager is employed, communication with the supply organization improves. The supply organization has a "go-to" person on the demand side of the business. They can work as a team to balance demand and supply day to day, which is a best practice of master scheduling. The sales team also has a "go-to" person when demand does not materialize as planned or when an unplanned opportunity emerges.

For both the paper manufacturer and the wireless telephone producer, improved communications between the demand and supply organizations increased the companies' responsiveness to changes in the marketplace. It also resulted in

improved customer service and reduced unplanned inventory.

To achieve this level of responsiveness requires time and attention. It also requires that the demand manager have an understanding of the supply side of the business, and vice versa. This brings us back to senior management commitment.

In both of these organizations, senior management was willing to invest in the resources (people, technology, and education) to ensure that the processes would be implemented and operated effectively. In the long run, both companies were able to increase sales revenue and operate more profitably without significantly increasing the number of employees.

RESPONSIBILITIES OF THE SALES ORGANIZATION

In defining the roles of the sales organization in the demand management process, we have found that the most effective companies have the following expectations of their sales force:

- Sales is responsible for direct contact with the customer. The sales force's primary job is to match the company's products to the customers' needs (and vice versa) and to book the business (sell).

- Sales is not only responsible to represent the company to the customer, but also to represent the customer to the company.

- The sales force is the live, real-time eyes and ears of the company in the marketplace. As such, the sales force is expected to communicate problems and market opportunities. This communication serves as key input for developing company tactics and strategies.

- The sales force is expected to provide some level of activity reporting as part of its administrative responsibilities.

- Management prefers to have its sales force selling rather than doing administrative tasks. Therefore, the administrative processes must be well-designed to facilitate efficiency.

- Sales planning (which involves identifying the timing of sales, territory management, and account management) improves sales productivity.

- There is value to the sales organization, and specifically sales management, in providing input into the demand planning process.

Given the above, the requirements of the sales organization in how they support demand planning varies by company, depending on the type and volume of products sold. Following are the most common requirements:

- Companies that serve primarily customers who provide repeat business: The sales force is expected to provide visibility of anticipated purchases that each individual customer is expected to make. This visibility is usually accomplished through monthly updates of the forecasts for each individual customer. Often the customer can be persuaded to provide this input directly without additional administrative activities by the sales person. The level of detail provided by the customers will vary, depending on the type of product being sold, product availability, and delivery strategy.

"There is value to the sales organization, and specifically sales management, in providing input into the demand planning process"

- Companies with a broad range of products and large number of customers: The sales force is usually expected to provide input every month on the anticipated product family or category demand in each territory. This information includes specific sales plans and activities that are expected to influence demand.

- Companies that primarily sell project work: The sales force's primary responsibility is to communicate project proposals and to keep the status of the proposals current in communications with the company. This communication is usually accomplished by ensuring that all proposals are copied to a central demand management function. In addition, the proposal communications are structured to provide internally important information. For example: probability that the project work will come to fruition, probability that the company will secure the project, the date the contract will be booked, and dates when the products will be required. This information, along with product or scope changes, is typically updated once per month and more frequently as appropriate.

> "To minimize the amount of administrative effort, companies have recognized the need for a full-time demand management function"

VALUE TO THE SALES ORGANIZATION

Many companies have a combination of the above selling structure and requirements. As a result, the demand planning process must be carefully designed to ensure it is of value to the sales organization and meets the needs of the supply chain.

The information gathered, communicated, and monitored by the sales force should help sales management—at the individual, district, region, and headquarters levels—to understand what is happening in the market, with specific customers, specific sales people, and specific products. This understanding enables sales management to take appropriate action and ensures that sales objectives are achieved.

The better the information and the earlier the information is received, the better the chance that the sales force will meet its sales goals and objectives.

For the sales force to realize value from the demand management process, the amount of administrative effort required to support the process must be minimized. The development of sales plans must be properly thought out and carefully implemented. Furthermore, when implementing sales automation tools, companies should consider how well the tools facilitate communicating sales information as part of the demand planning process.

To minimize the amount of administrative effort, companies have recognized the need for a full-time demand management function. The demand management function facilitates the demand planning process and provides analytical support for the sales and marketing functions.

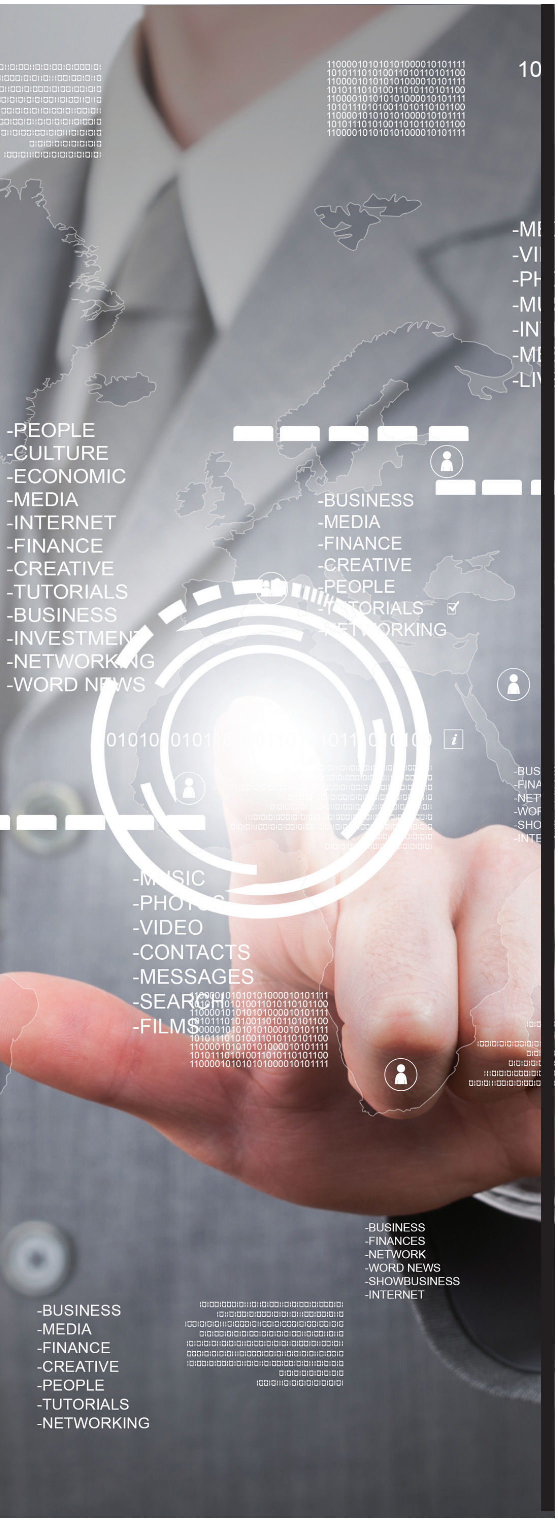
In designing a demand management process, it must be recognized that individual sales people and individual district or regional sales managers cannot see the total demand picture. Their primary role is to understand their individual piece of the demand extremely well.

Someone must have the responsibility to compile a comprehensive view of the demand picture. Clearly, this is the job of the senior sales management. Day-to-day activities, however, frequently cloud their ability to analyze demand from the total company perspective. The role of the demand manager is to provide the information and analysis required so that senior sales management can determine the overall status of demand and take appropriate actions as needed.

FUNDAMENTAL PRINCIPLES

The most effective companies in utilizing demand management recognize the following fundamental principles:

- The demand plan is not a guess about what customers are going to buy. It is a request for product that you wish to have available because that is what you intend to sell.
- Requesting product does not ensure that it can be provided.
- Bad news early is better than bad news late. Conversely, good news early is better than good news late.
- There should be no surprises. The surprises should have all been discovered and communicated in the demand planning process and demand review meeting.
- The demand plan numbers are not wrong. It is usually the assumptions about the business (upon which the demand plan numbers were based) that are wrong.
- The greater the demand plan accuracy, the fewer tactics that are needed to deal with inaccuracies. The greater the inaccuracy, the more tactics that are needed to deal with the inaccuracies.
- With shorter manufacturing lead times, the need to provide an accurate detailed demand plan further out in the planning horizon is reduced.
- If the planning horizon does not extend beyond 12 months (ideally at least 18 months), senior management does not have the time to anticipate, develop strategies and tactics, and then execute to ensure that the plan can be achieved.
- Once the demand plan is agreed upon and approved at the executive sales and operations planning meeting, the management team—and each sales and marketing individual—agree to do what the plan says they are going to do.



WHERE SHOULD THE DEMAND MANAGER RESIDE IN THE ORGANIZATION?

We frequently find that where the demand manager should reside in an organization is a topic of debate. Here's what we found works best:

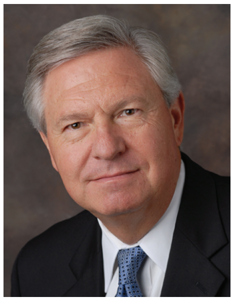
- When starting out in developing and operating the demand management process, the demand manager should reside in the organization that is responsible for sales. This serves two purposes: 1) it puts the demand manager closest to the customer, which will improve demand plan accuracy, and 2) it ensures that the sales organization is accountable for the demand plan. When the sales organization is not actively involved in developing the demand plan, most demand management efforts are mediocre at best.

- Once sales participation in the process becomes institutionalized and sales and marketing management demonstrate that they are accountable for the demand planning process, it matters less where the demand manager resides in the organization. It is not unusual for companies to evolve to a supply chain management organization, where both the demand manager and supply manager (formerly master scheduler) reside. However, for the demand management process to remain effective, sales and marketing organizations must continue to communicate their sales plans, promotion plans, assumptions, and marketing intelligence. Sales and marketing management also must continue to reach consensus on a demand plan and support the sales and operations planning process.

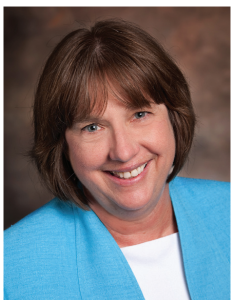
ADDITIONAL RESOURCES

To learn more about demand management, Oliver Wight offers two books as excellent resources: ***Enterprise Sales and Operations Planning*** and ***Demand Management Best Practices***. Oliver Wight also offers consulting, education and assessment services to help improve demand planning processes.

ABOUT THE AUTHORS



George Palmatier, Oliver Wight Principal, has assisted many companies that make everything from soup to satellites in implementing integrated management processes. He is recognized as an expert on Sales & Operations Planning, Integrated Business Planning and demand management as well as ERP, Integrated Supply Chain Management, and Integrated Product Development (IPD). George works with clients to formalize and integrate their strategic plans into an integrated business management process, Integrated Business Planning. With twenty years of experience in sales, marketing, strategic planning, and general management, George has a thorough knowledge of how to achieve sustained results improving business performance. During his 11 years as vice-president of sales and marketing at Bently Nevada Corporation (now part of General Electric), George was responsible for bringing the sales and marketing departments into an integrated business management process. Bently Nevada was one of the pioneers in developing and implementing Sales & Operations Planning using it in a truly integrated management process. George has authored or co-authored four books: *The Marketing Edge, Enterprise Sales and Operations Planning, Demand Management Best Practices, and The Transition from Sales and Operations Planning to Integrated Business Planning.*



Colleen "Coco" Crum, a principal with Oliver Wight Americas, is considered a thought leader and innovator in demand management and sales and operations planning. She has helped develop methodologies enabling companies to successfully implement S&OP and demand management and achieve quick time to financial benefit. She has assisted companies across the manufacturing spectrum, including chemicals, consumer goods, electronics, biotechnology, and aerospace and defense. Coco has co-authored four books: *Enterprise Sales and Operations Planning*, *Demand Management Best Practices*, *Supply Chain Collaboration* and *The Transition from Sales and Operations Planning to Integrated Business Planning,* and participated in the development of a best practice model for grocery supply chain replenishment resulting in the publication of a book on ECR by Canadian food industry trade groups.

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