

Evolution

Common Pitfalls

Real value

The role of the Demand Review in Integrated Business Planning

Demand Planning & Forecasting forum, October 2013



Niels van Hove

Planning can be poetry, but lets start with a conversation

***'A trend is a trend is a trend,
but the question is, will it bend?
Will it alter its course
through some unforeseen course
and come to a premature end?'***

Alec Cairncross, 1969

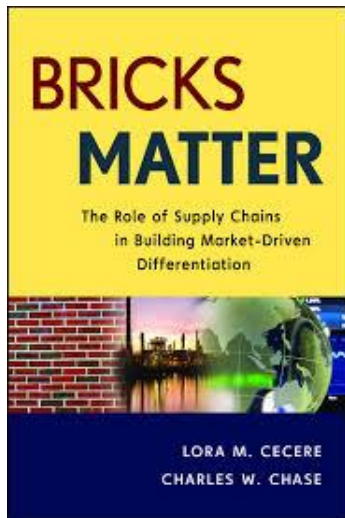
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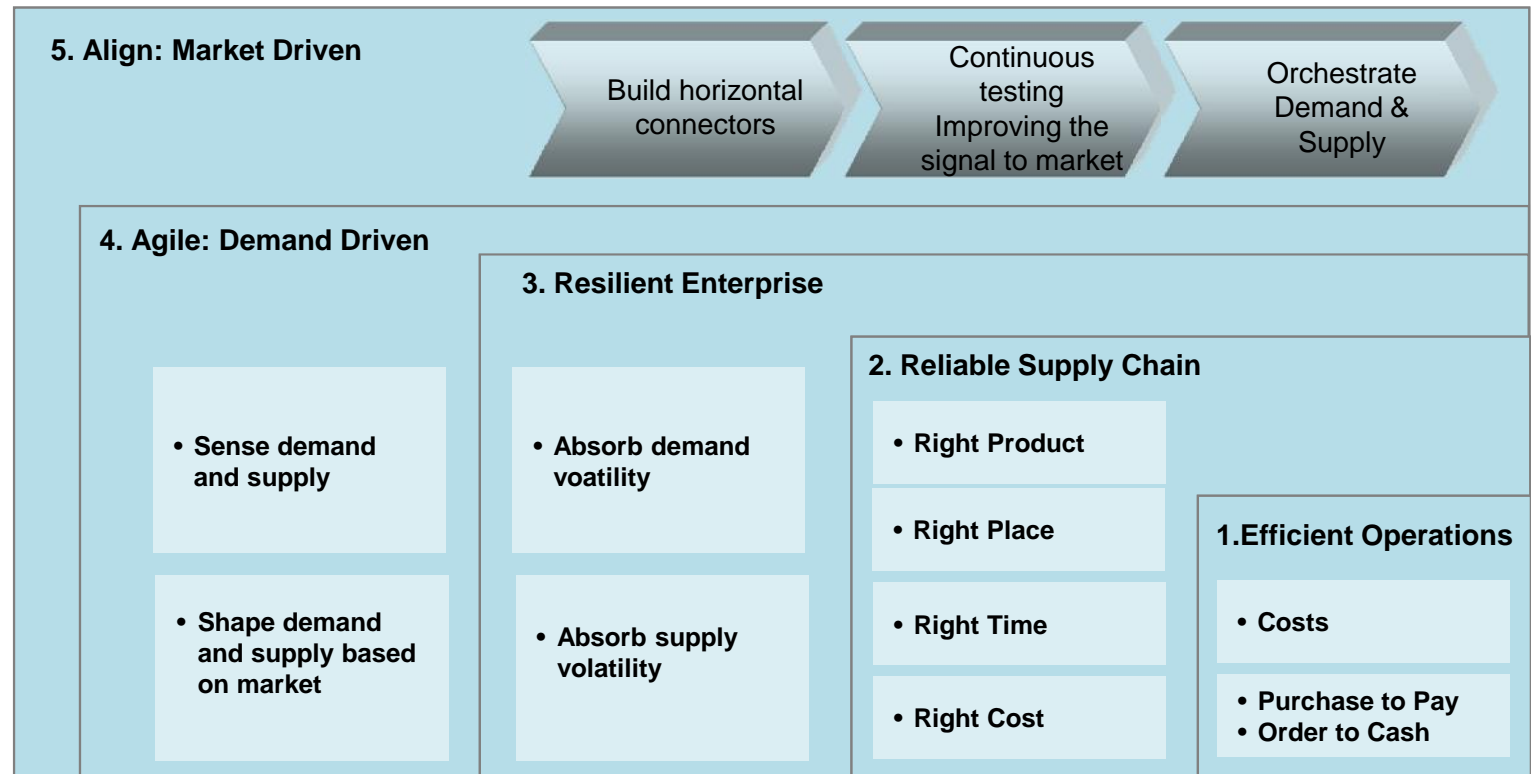
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Supply Chain evolution has seen several stages

*In the last 30 years we've gone through 5 stages of supply chain maturity**

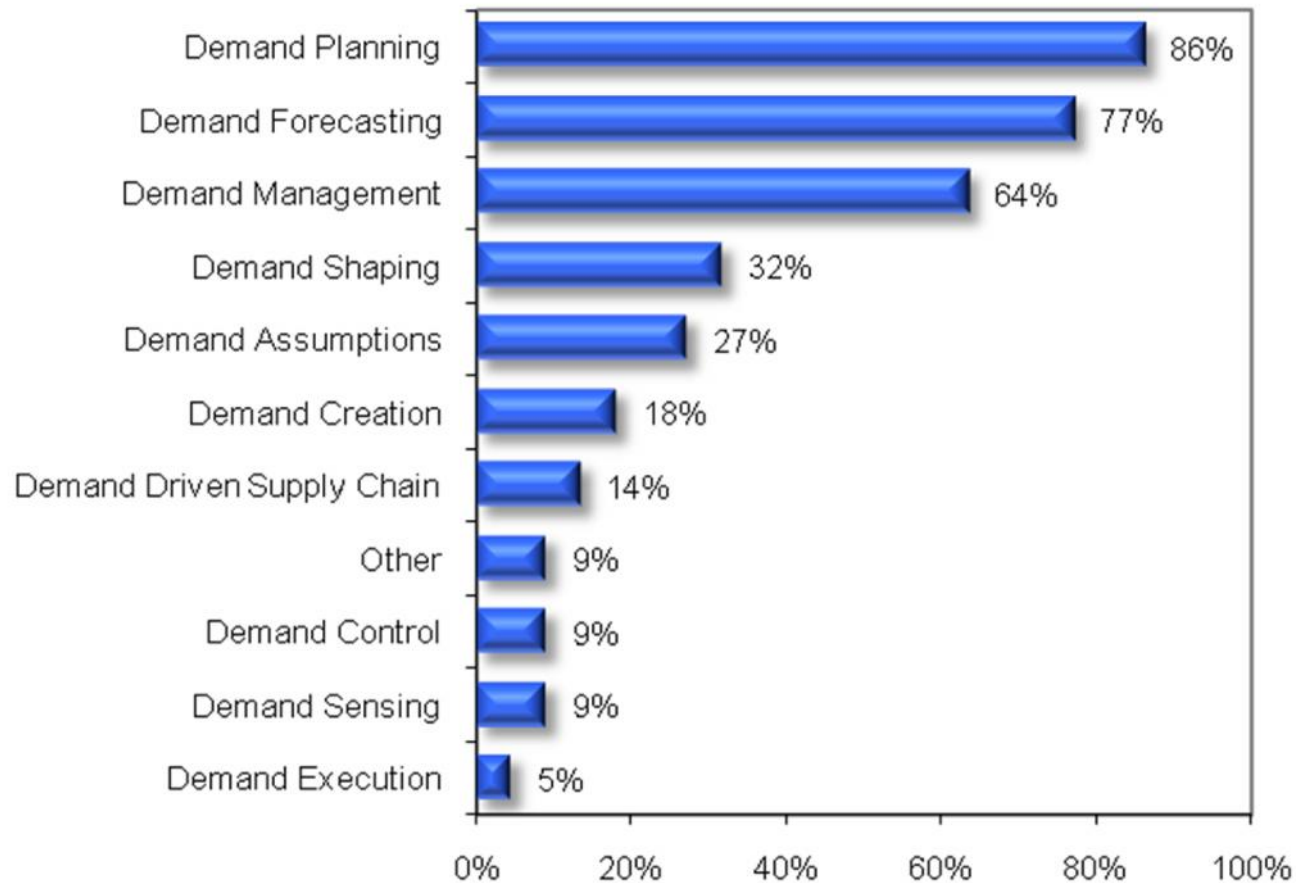


*Lora Cecere, 'Bricks Matter'



We're still catching up with some of the terminology

... many terminologies are not used frequently by practitioners



What Demand terminologies do you use in your day to day job? (n=22)

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The world of information availability changed...

Information availability provides more opportunity to be market driven



Social media can sense real-time:

1. Consumer sentiments
2. Product quality & defects
3. New product acceptance
4. Price increase impacts
5. Who influences your brand
6. Competitor product insights



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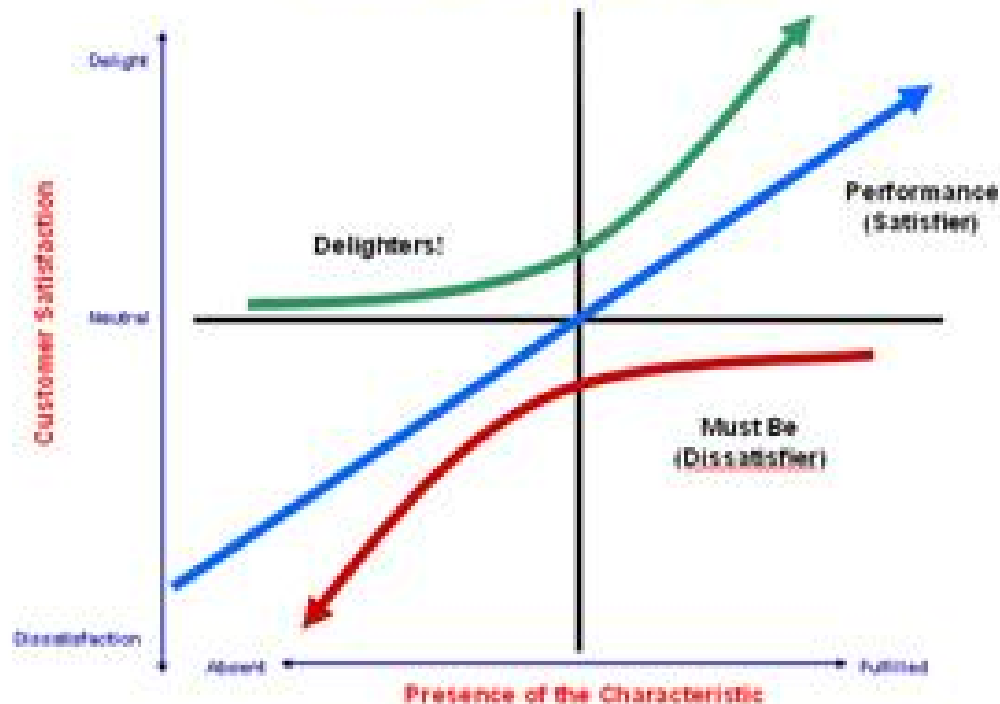
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...and the role of demand planner changed...

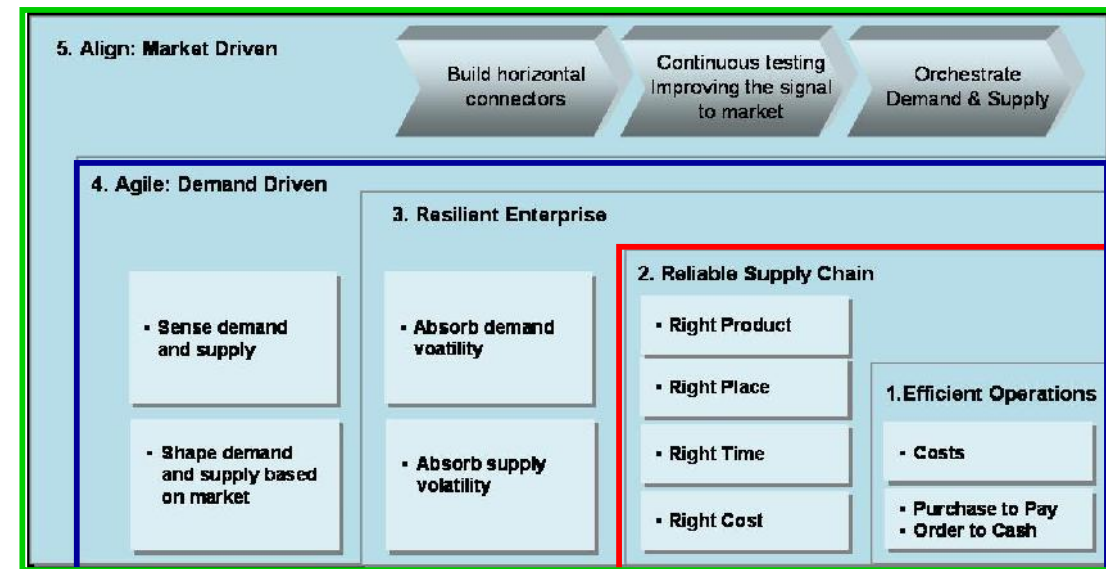
In evolving supply chain maturity, what used to be a satisfier now is an expected 'Must be'

KANO MODEL



Horizontal connector

Value creator



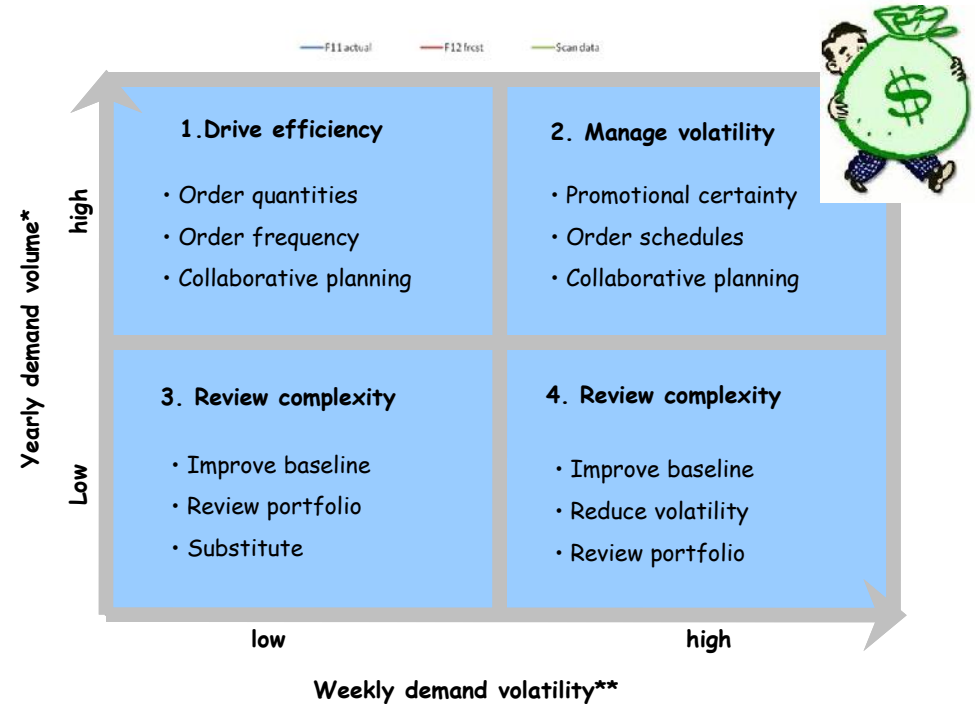
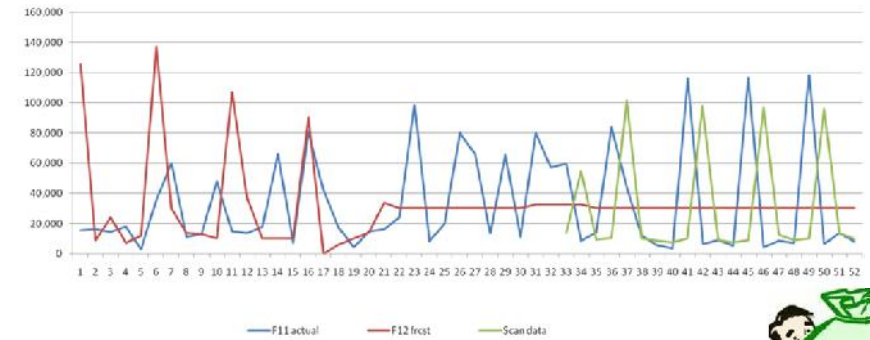
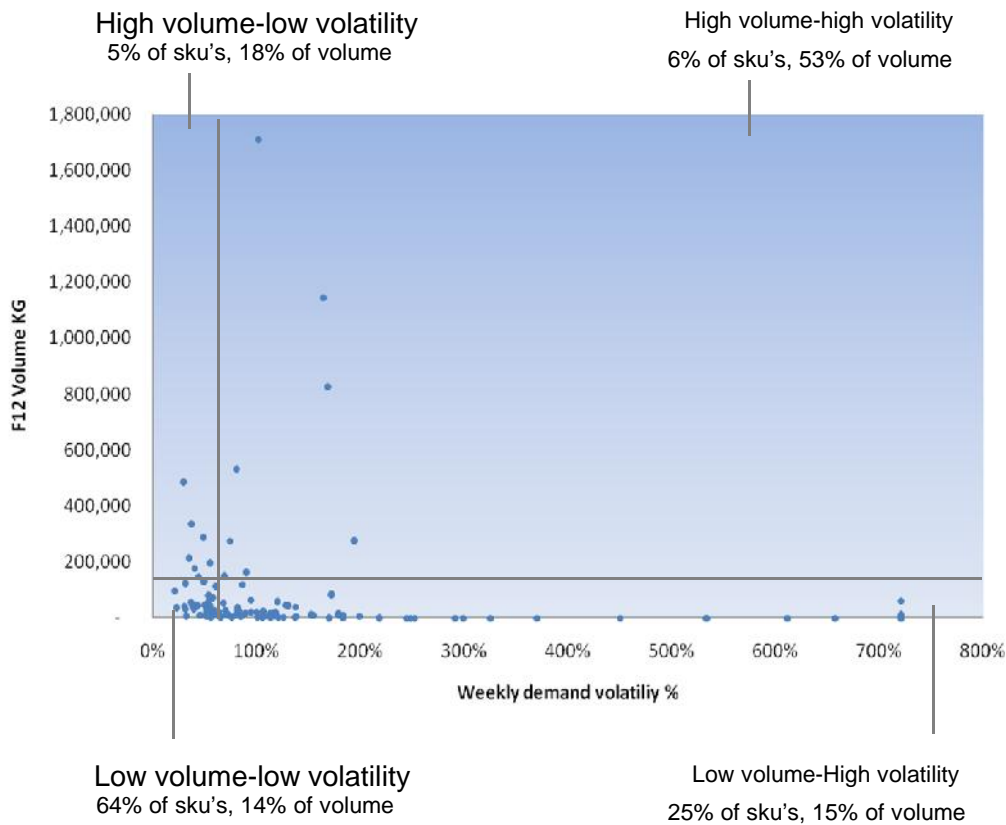
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...from analyst and forecaster to value creator...

Connecting the customer through a value chain proposal is a **delighter** for a sales person



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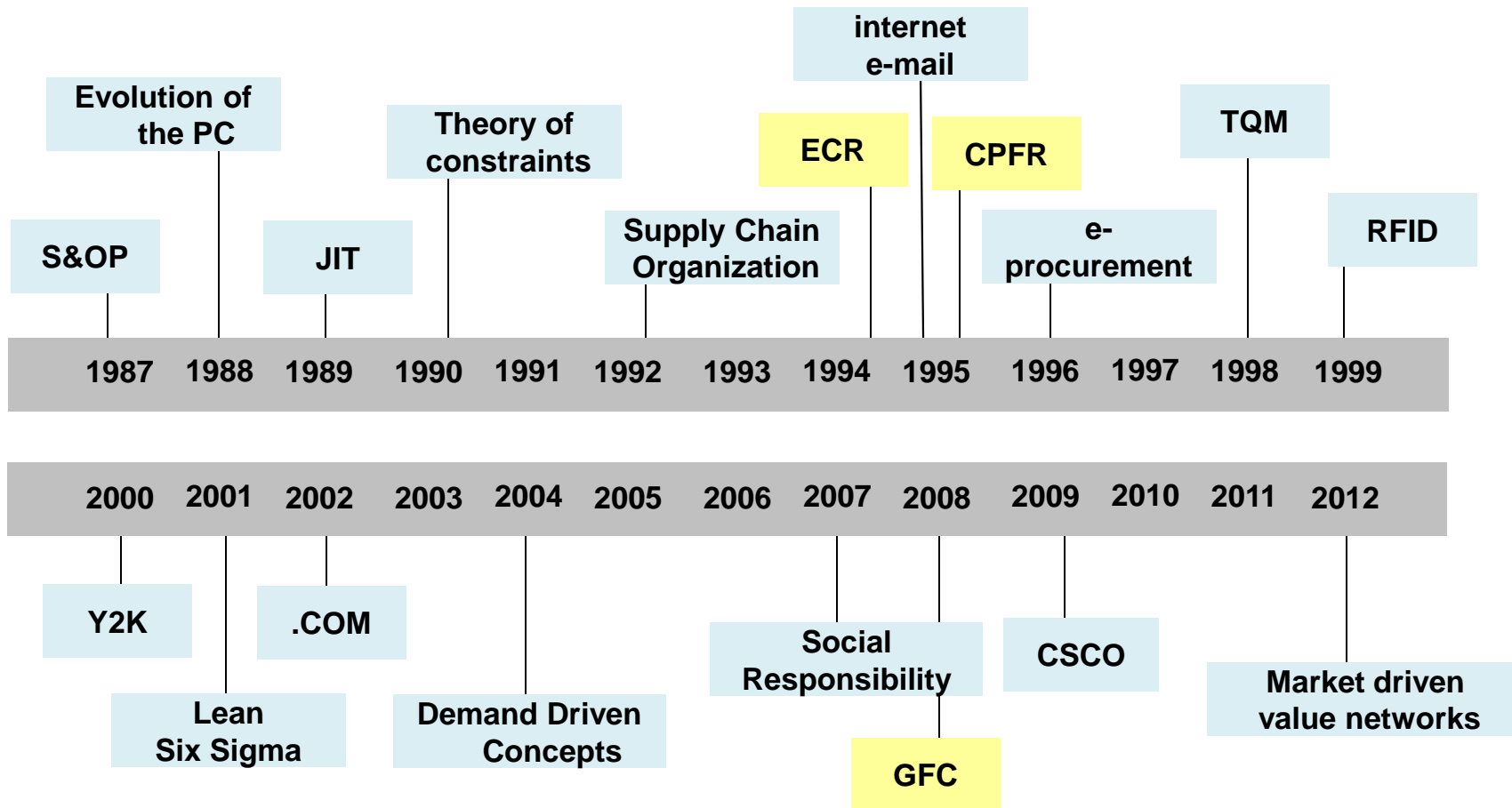
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...but 1 thing hasn't changed

*Although supply chain has seen many tipping points**

the demand planner still roles the dice in to the game of supply chain



*Lora Cecere, 'Bricks Matter'

There are many pitfalls in the Demand Review

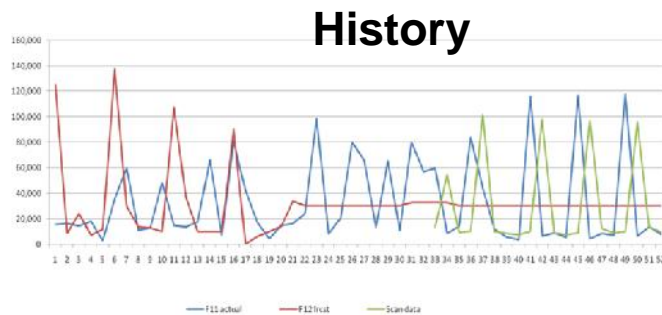
Some more common than others



- 1. Forecasting rather than planning***
- 2. Volume no value***
- 3. Talk about anything but demand***
- 4. Numbers only, no assumptions***
- 5. The classics...***
- 6. Lack of system thinking***

1. Forecasting rather than planning

A forecast is the result of a plan. A plan is a set of activities with an assumed outcome



Formula

$$\begin{aligned} & \rightarrow x^2 + px + q = 0 \quad U = \int f(x) \cdot \cos x \, dx \quad v = \frac{dv}{dt} \\ & \rightarrow x_{1/2} = \frac{-p \pm \sqrt{p^2 - 4q}}{2} \quad \int \frac{1}{x} dx = \ln|x| + C \quad \theta = \int \dot{\theta} dt \\ & f_r = \frac{A}{2\pi} \cdot \sqrt{LC} \quad \omega = 2\pi f_r \quad 4Fe \int_1^2 + 11 \int_2^4 \rightarrow 2Fe_1 O_2 + 8SO_4 \\ & \frac{d}{dt} \int B dA = \oint E \cdot dl = - \int \left(\frac{\partial B}{\partial t} + \text{rot}(B \times v) \right) \cdot dA \quad ? x \neq y, z = x \\ & HCl + H_2O \rightleftharpoons Cl^- + H_3O^+ \quad a^2 = b^2 + c^2 \rightarrow \text{Wnt} = \frac{1}{2} \cdot \int \omega^2 \\ & v = \frac{d}{dt} \pi h (3a^2 + 3a^2 + b^2) \quad \rho = \int \int \int \frac{r}{3a} H_p H_p^2 \sin \theta \, d\theta \, d\varphi \end{aligned}$$

+

= **Baseline**

Baseline

+

Planned activities

- Price changes
- Distribution changes
- Range increase /NPD
- EDLP, H/L, frequency
- Advertisement
- Trade spend phasing
- Field teams / activation

= **Forecast**

2. Forecasting volume no value

To get engagement at the highest levels, we need to plan \$



Demand:

1. **Volumes**
2. **GSV/NSV**
3. **Trade spend**
4. **Promotional spend**
5. **Commercial spend**



Supply:

1. **Production volume**
2. **COGS**
3. **Conversion costs**
4. **Logistics costs**
5. **CAPEX**

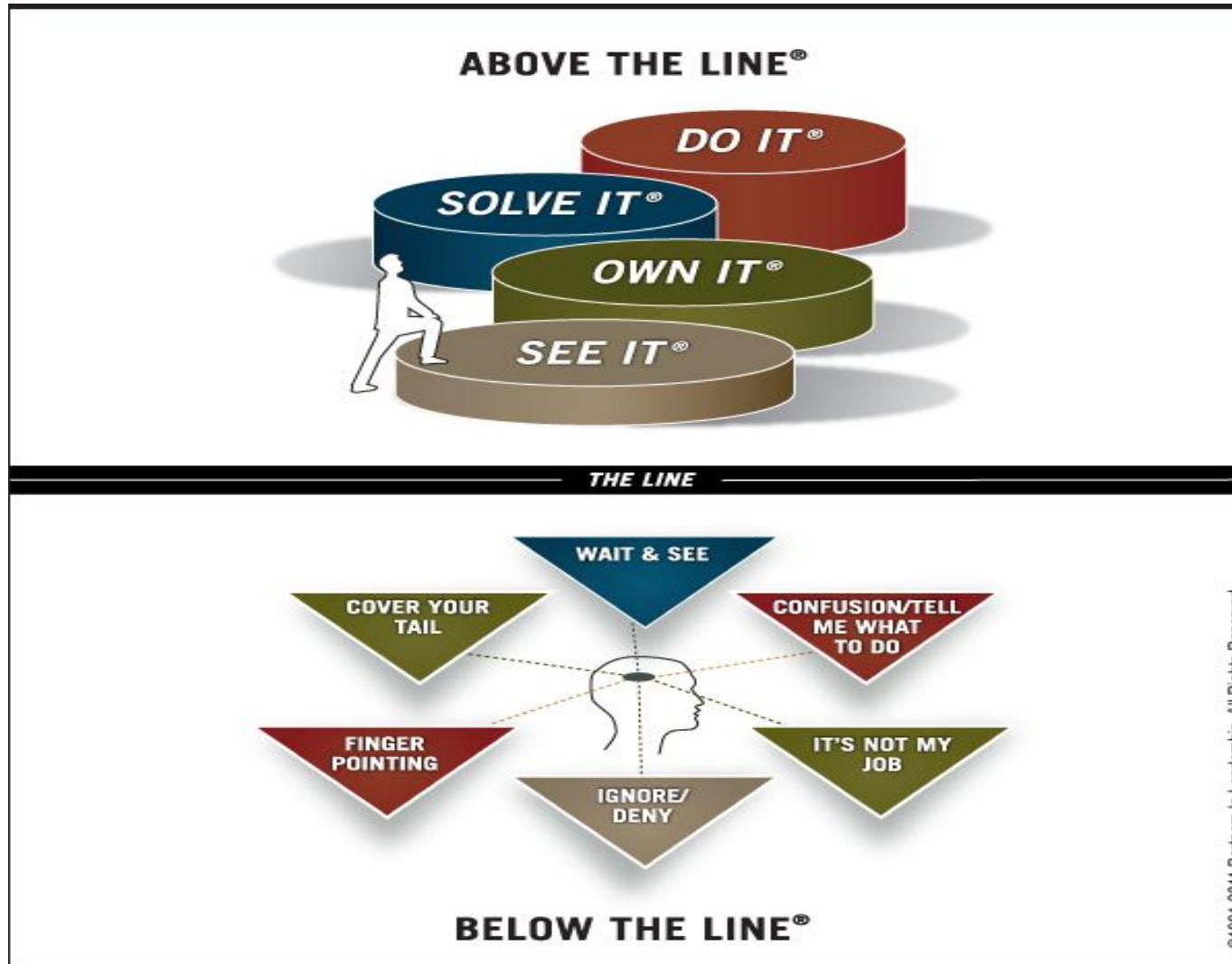
Company performance:

1. **EBIT**
2. **ROCE**
3. **Cash flow**



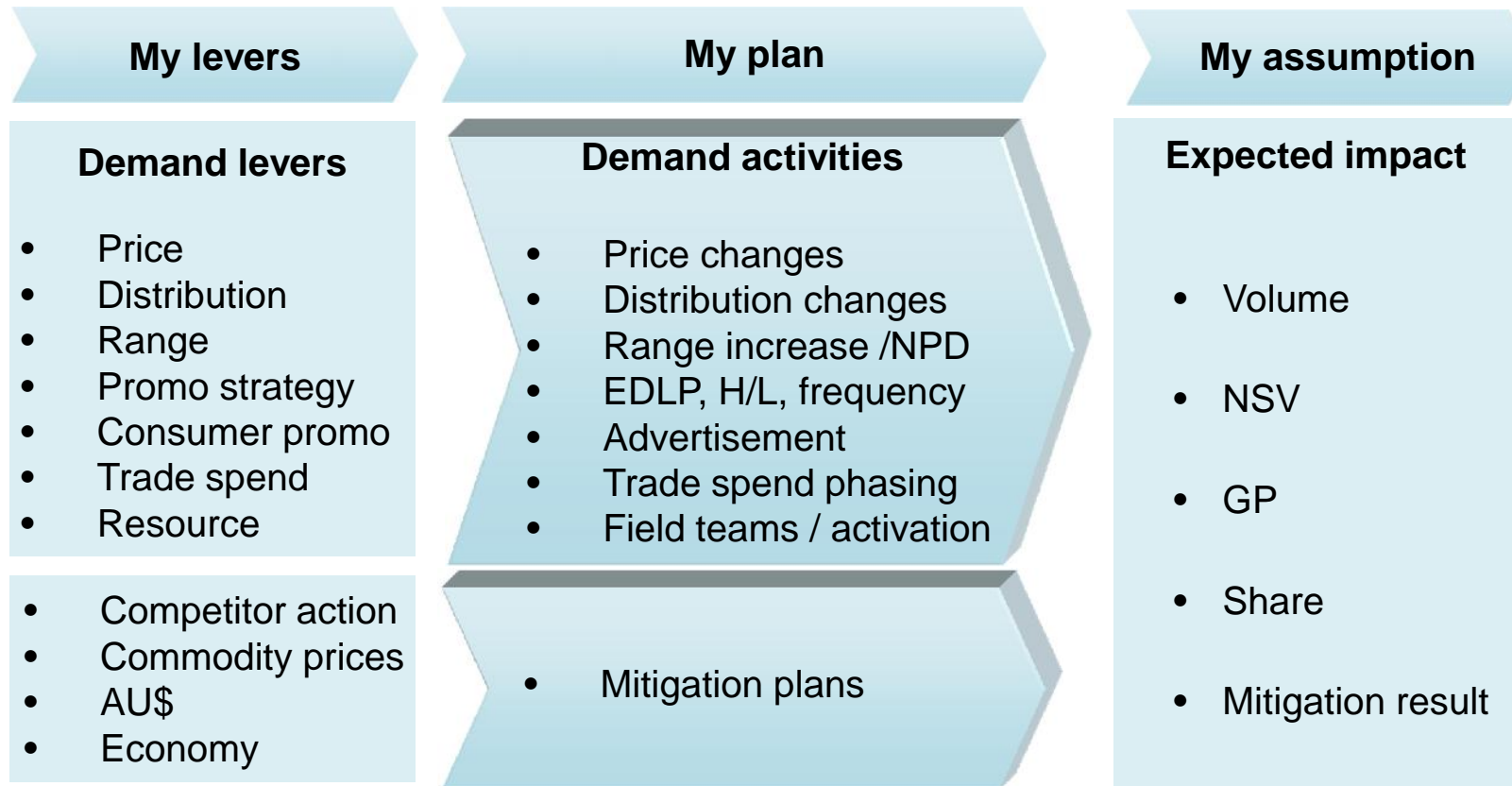
3. Talking about anything but demand

Below the line conversations about 'THEY'



4. Numbers only, no assumptions

Sales has only a handful of demand levers, so discuss how you plan to influence these



5. The classic intentional bias

*Biased forecast due to human behaviour can be divided in
unintentional and intentional behaviours**

** EyeOn whitepaper, 2008*



Sandbagging : purposefully waiting to record orders until the next quota or revenue goal period



Bulldozing : building up of inventory caused by unconsumed forecast, i.e a 'gap' between the predicted and actual sales volume that is not adjusted



Carpeting : not reflecting real demand to be able to please management



Back casting : management sets targets for staff to which the forecast should lead



Gaming : manipulation of the forecast to 'beat' the incentive system



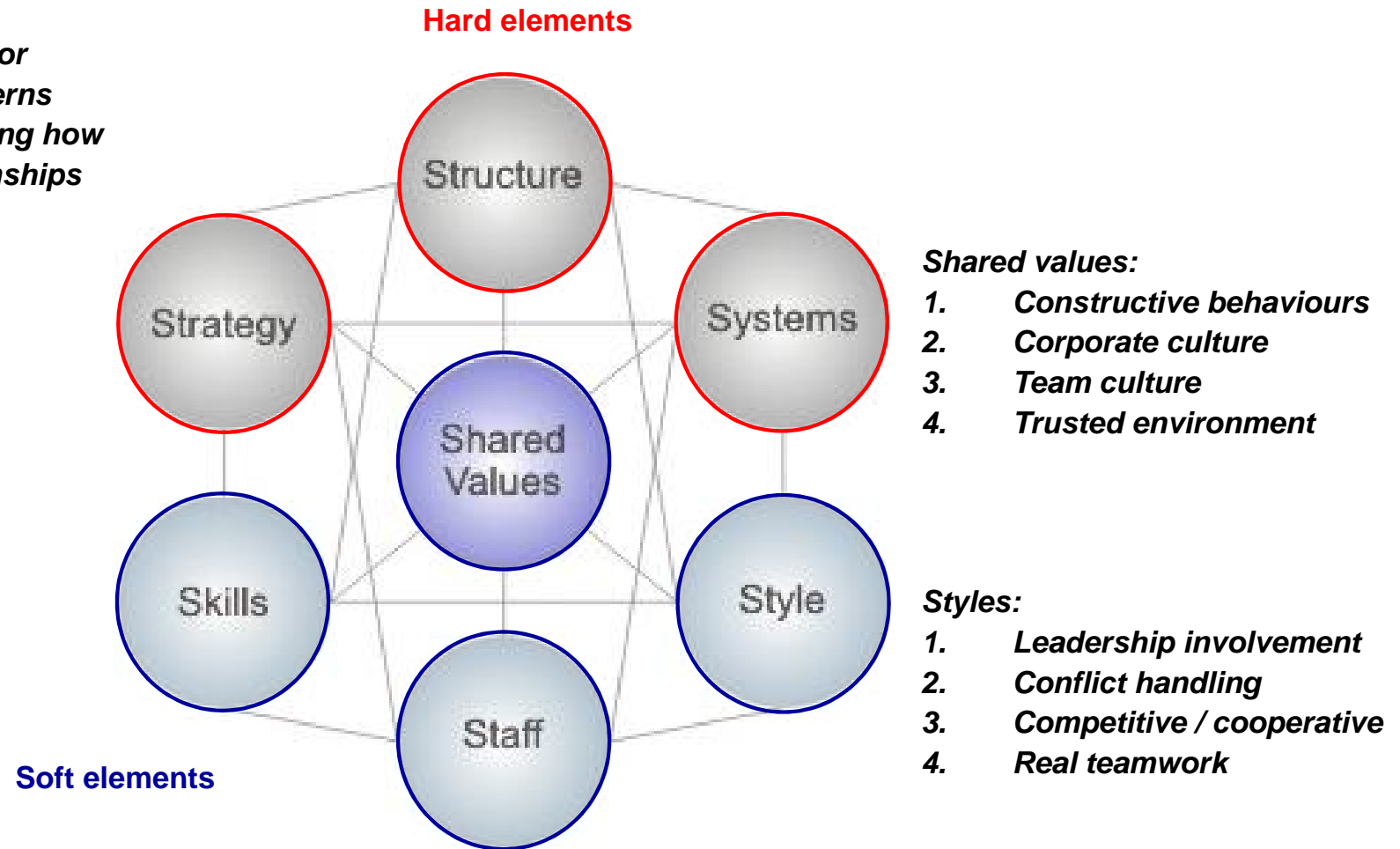
Unintentional :
Sales people that really have no clue!!!

6. Lack of system thinking principles

Like everything, Planning is part of a bigger system

'System thinking is a discipline for seeing wholes, recognising patterns and interrelationships and learning how to understand those interrelationships in more effective, efficient ways'

Senge, Lannon-Kim, 1991



McKinsey's 7 S framework, circa 1980

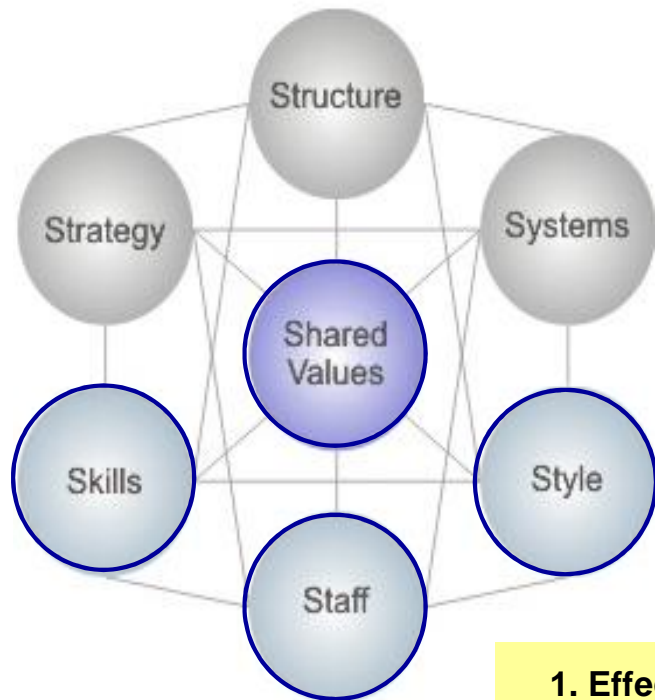
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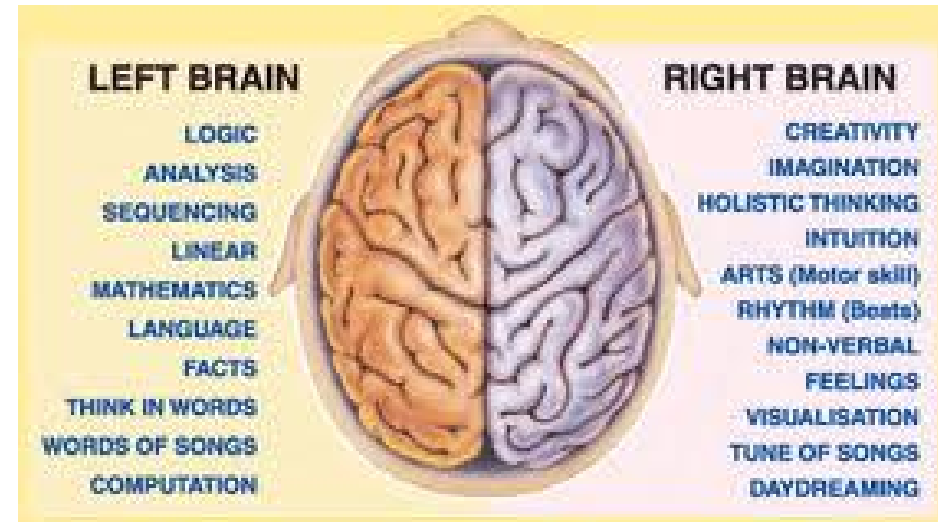
Real value

To create **real value** we need a different focus...

To get beyond analysis, logic, spreadsheet and numbers and be business partners, planners need to activate more soft system elements and the right brain



1. Effective Styles



2. Think Holistic

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...a focus on stories and conversations.

'Smart leaders today, engage with employees in a way that resembles an ordinary person-to-person conversation more than it does a series of commands from on high'*

**Boris Groysberg & Micheal Slind.
Harvard Business Review, June 2012*

Elements of Organizational Conversation*

1. Intimacy

How leaders relate to employees

2. Interactivity

How leaders use communication channels

3. Inclusion

How leaders develop organizational content

4. Intentionality

How leaders convey strategy

3. Gain Trust

Promote dialogue

4. Listening

Getting personal



'For many executives and managers, the temptation to treat every medium at their disposal as if it were a megaphone has proven hard to resist'



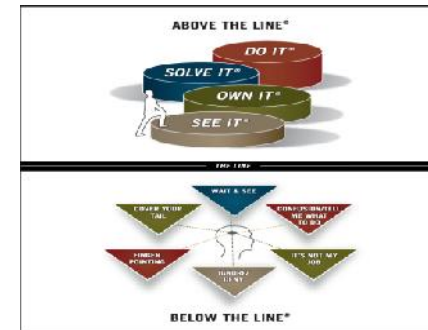
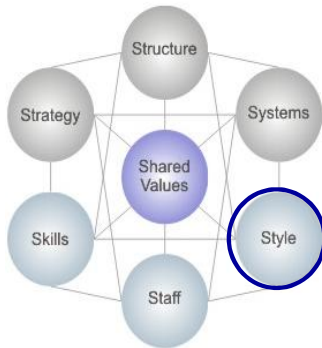
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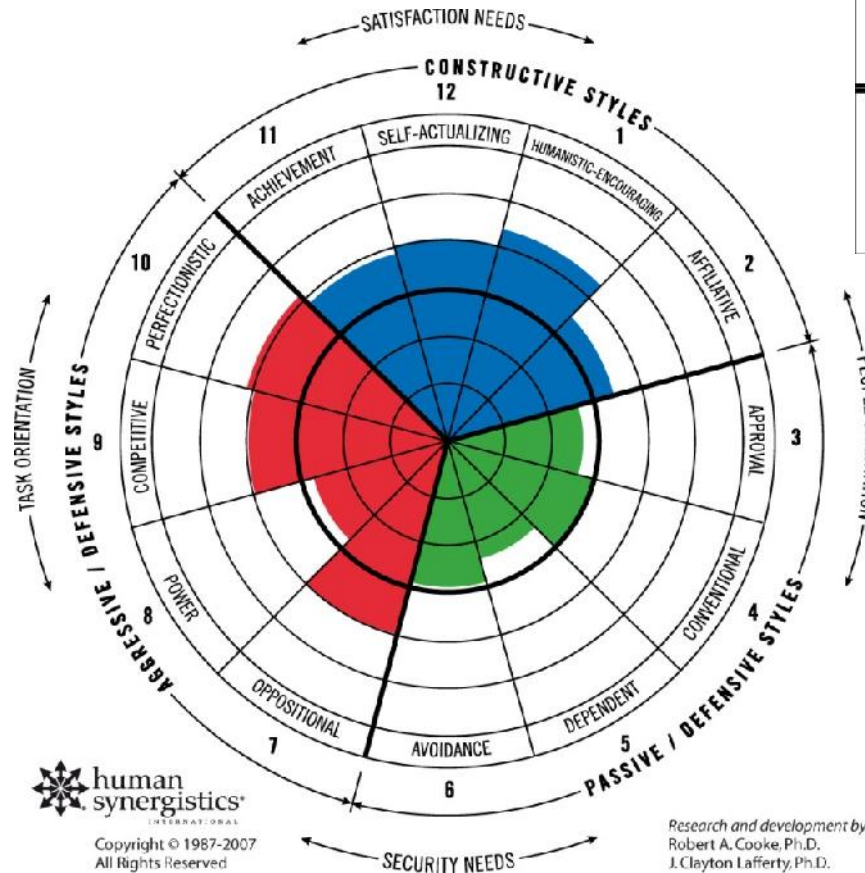
1. Effective styles

There are many tools to identify personal and group styles

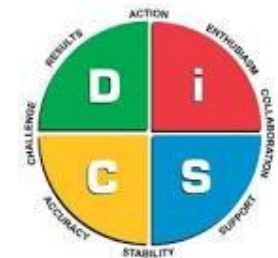


Constructive **styles** are most effective and creates sustainable cultures

Aggressive & defensive **styles** limit personal and group effectiveness and do not create sustainable cultures



DDI



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Research and development by: Robert A. Cooke, Ph.D., J. Clayton Lafferty, Ph.D.

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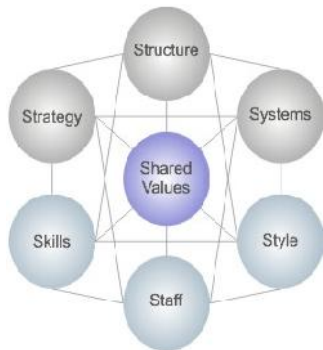
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2. Think **Holistic**

Think and communicate horizontally and holistic, rather than only vertical in your silo

Think Holistic

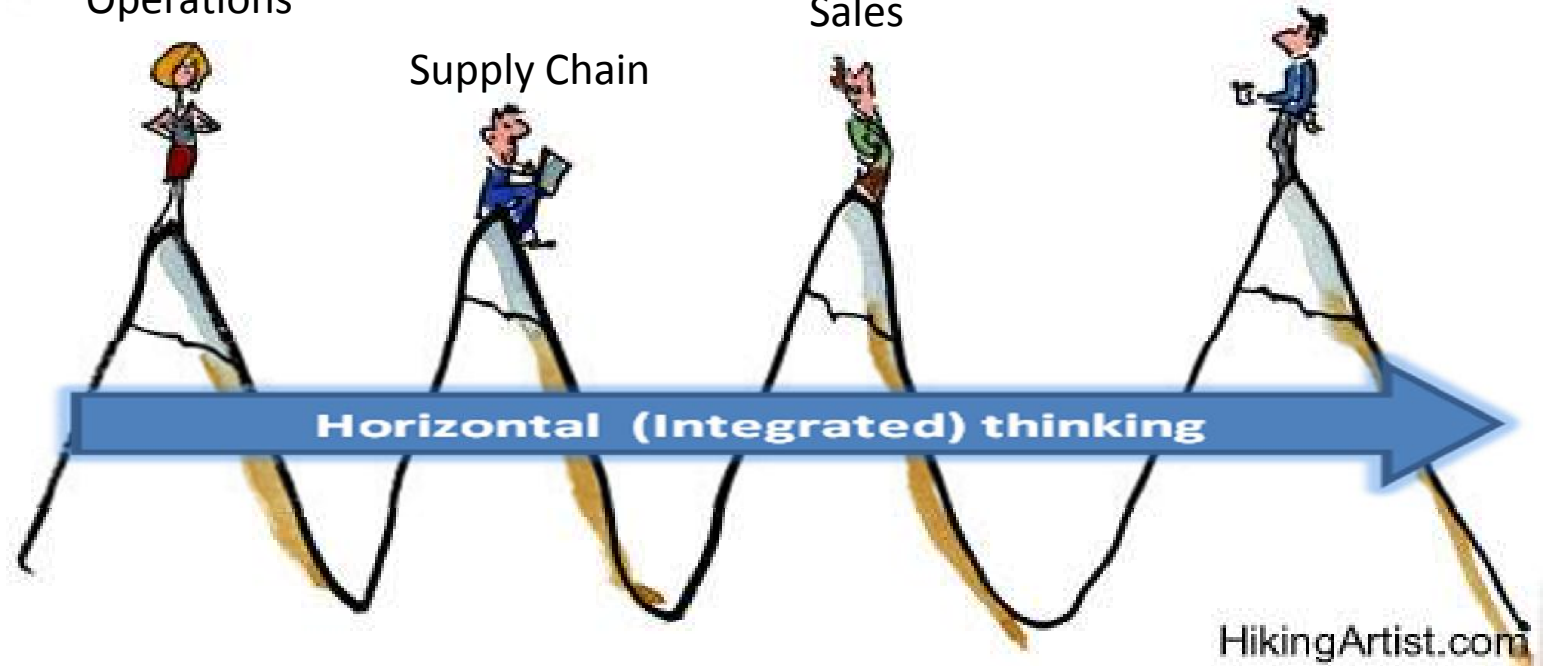


Operations

Supply Chain

Sales

Marketing



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3. Gain Trust

Trust is the foundation for effective and achieving teams!

Planning Impact

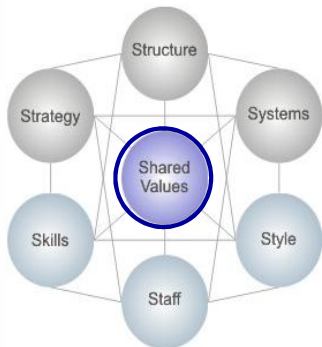
Willingness to learn and adapt plans accordingly

Ownership to make plans work across functions

Prioritize and execute 'agreed' plans

Challenge assumptions to come to a consensus plan

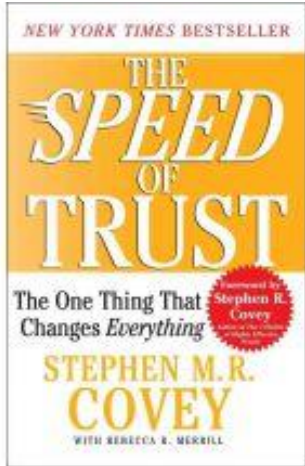
Cross functional engagement to make plans



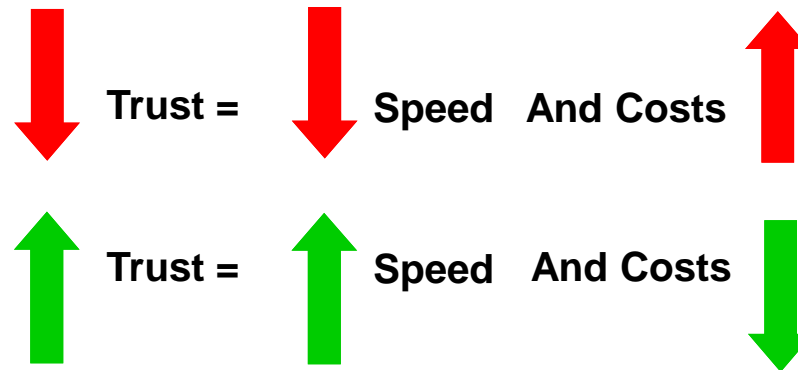
Patrick Lencioni: 'The Five Dysfunctions of a Team'

3. Gain Trust

Where do you think *a Demand Review* works best?



Steven M.R. Covey, *The speed of Trust*



Low **trust** cultures:

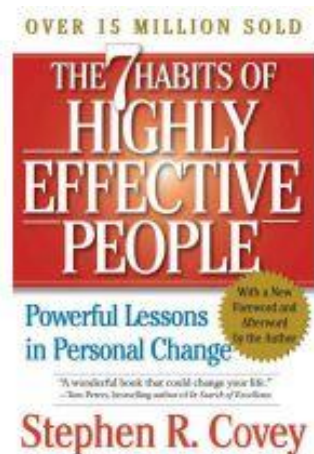
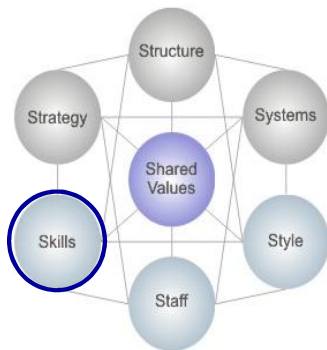
- People manipulate or distort facts
- People withhold and hoard information
- Mistakes are covered up or covered over
- There are numerous meetings after meetings
- There are many undiscussables
- There is no constructive feedback

High **trust** cultures:

- Information is shared openly
- People are loyal to those who are absent
- There is real communication and collaboration
- There are few meetings after meetings
- Transparency is a practiced value
- People give and receive constructive feedback

4. Listening

*'Leaders who take organizational conversation seriously know when to stop talking and start **listening**'*



Steven R. Covey, '7 habits of highly effective people'

1. Ignoring
2. Pretending
3. Selective listening
4. Attentive listening
5. Listening with empathy

Verbal **40%**

LEFT BRAIN
 LOGIC
 ANALYTIC
 SEQUENTIAL
 LANGUAGE
 MATHEMATICS
 KNOWLEDGE
 FACTS
 THINK IN WORDS
 WORKS OF SCIENCE
 COMPUTERS

Non-verbal **60%**

RIGHT BRAIN
 IMAGINATIVITY
 VISUALIZATION
 HOLISTIC THINKING
 INTUITION
 ARTS/MUSIC/ART
 MATHS/PHYSICS
 FEELINGS
 THINK IN PICTURES
 THREATS/EMOTION
 DREAMS/IMAGINATION

6. Listen with the intention of being influenced

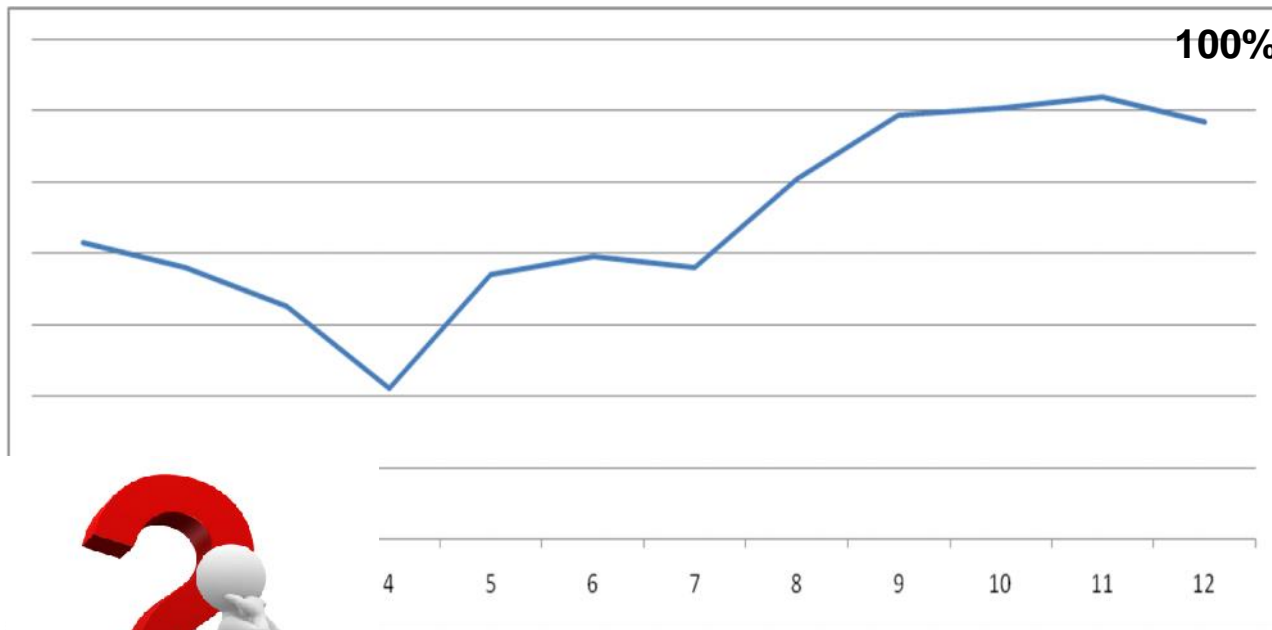
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Organizational conversation: the hypothesis

What happened with the monthly Customer Service Levels?



So what changed?

- 1. The Process?*
- 2. Aligned KPI's?*
- 3. Forecast accuracy?*
- 4. Attainment?*
- 5. System visibility?*
- 6. Stock levels?*
- 7. Conversations?*



Impact full planning is about conversations and stories

*Ask questions, create insights, have challenging conversations and
tell a story on where your business is going*

*'A trend is a trend is a trend,
but the question is, will it bend?
Will it alter its course
through some unforeseen course
and come to a premature end?'*

Alec Cairncross, 1969

1. Do we think the trend continues?
2. Does it come to a premature end?
3. Do shopper & consumer behaviour change?
4. Does customer behaviour change?
5. Does competitor price or AU\$ change?
6. What **plans** do we have?
7. What **calculated risks** do we want to take?
8. What is the **most likely** outcome of all of this?
9. Are we on track to hit our **commitments**?
10. If not, what can we do to close the **gap**?
11. **How do we tell this story?**

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Thank you!

About Niels



For 15+ years, Niels has been working as consultant, supply chain manager and S&OP manager in several multi billion dollar companies in over 10 countries. Niels holds an MSc. in Operations Management from Amsterdam University, The Netherlands

Social



Publications



**AFP
Exchange**

March 2012



**Journal of
Business
Forecasting**

December 2012



**Supply Chain
Movement**

February 2013



**FP&A
Newsletter**

March 2013