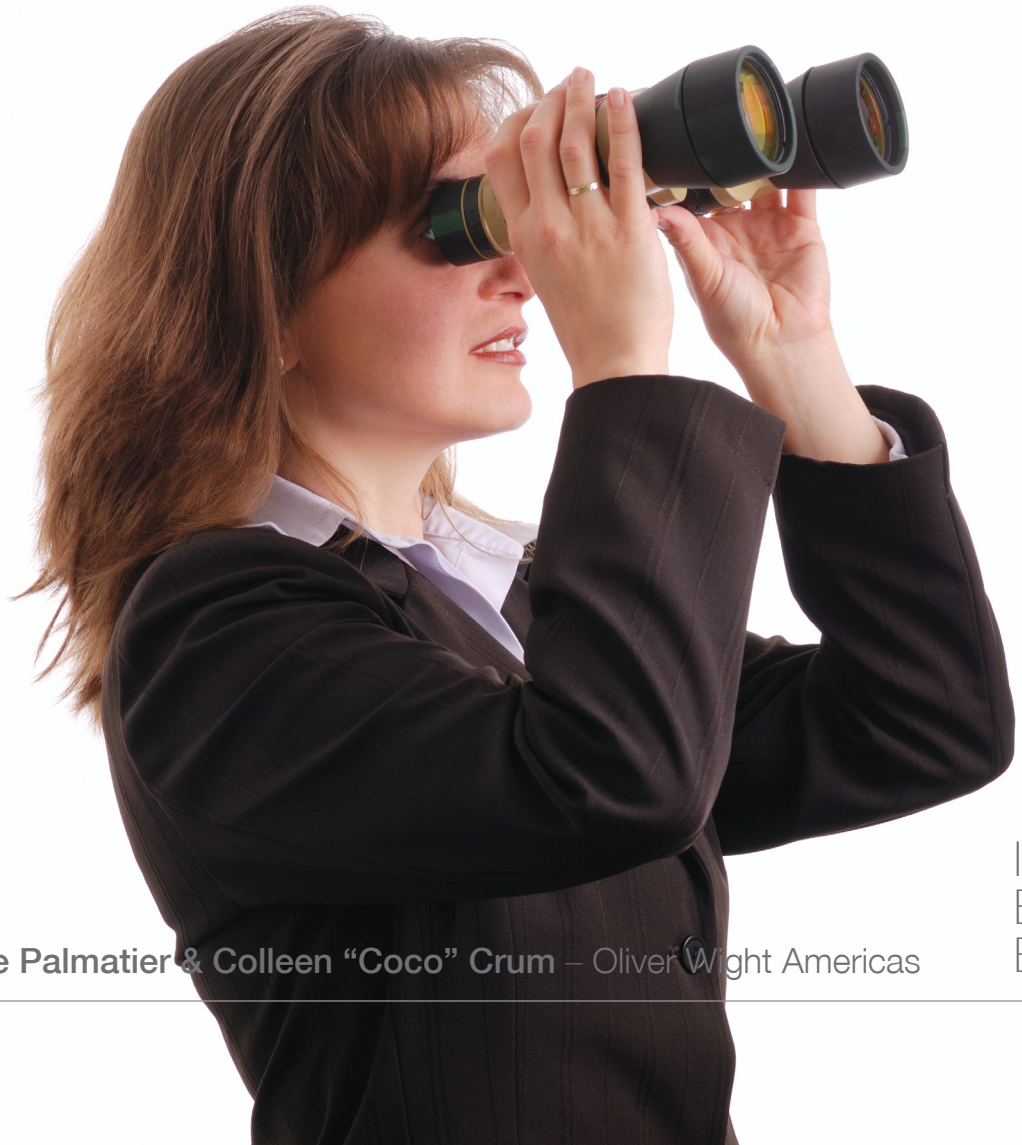
Informative guides on industry best practices

OLIVER WIGHT PAPER series

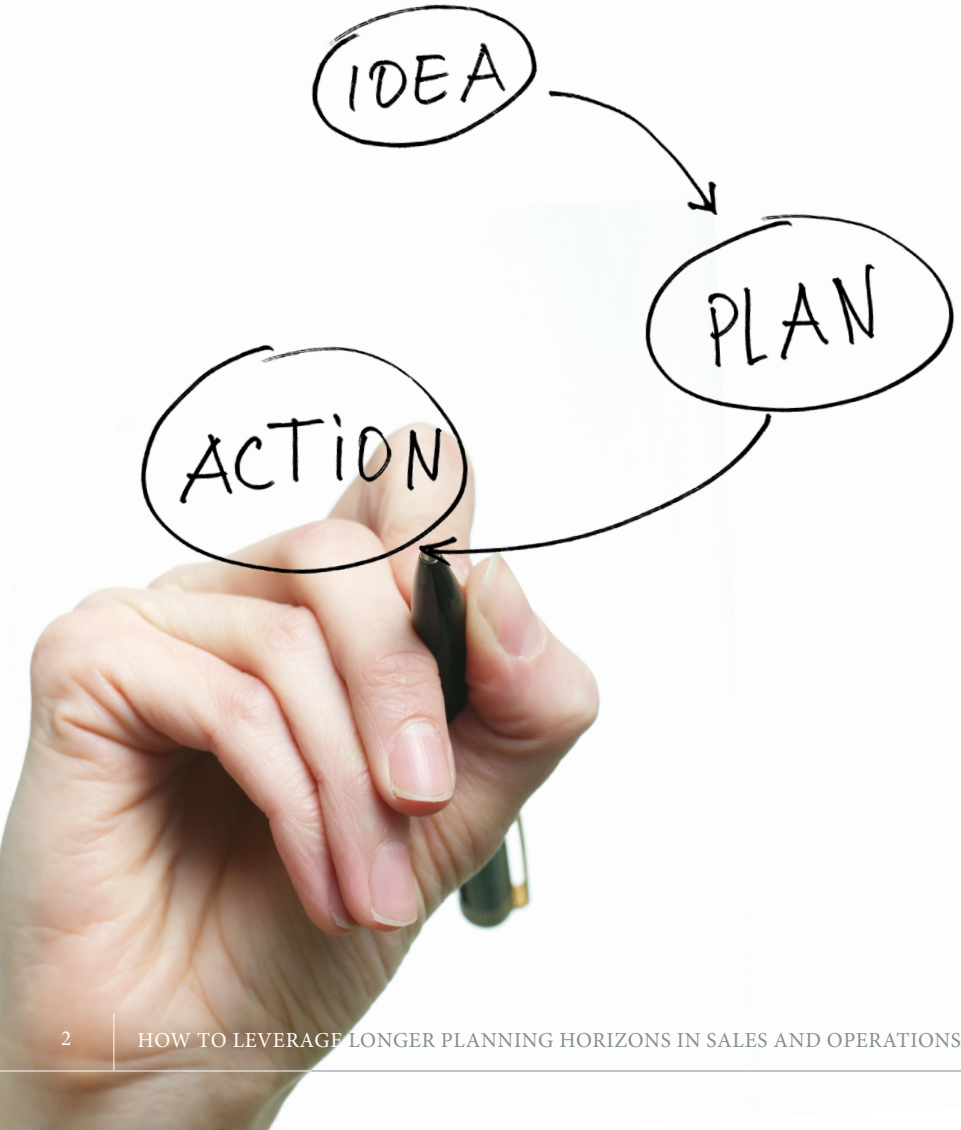
How to Leverage Longer Planning Horizons in Integrated Business Planning (Advanced S&OP)



George Palmatier & Colleen "Coco" Crum – Oliver Wight Americas

Inspiring Business Excellence

Over the past 25 years



leading companies have been implementing a process originally known as Sales and Operations Planning. With this process, expected demand for products is balanced and synchronized with the ability to deliver the products (Supply).

The S&OP process has evolved and matured into what is known today as Integrated Business Planning (IBP). Integrated Business Planning is considered the "best practice" for managing a company and ensuring its strategies are executed effectively and efficiently.

The dynamic, forward-looking nature of IBP is especially advantageous in a global economy with increasing volatility and uncertainty. Another advantage is the integration of operational and financial management. When IBP is successfully

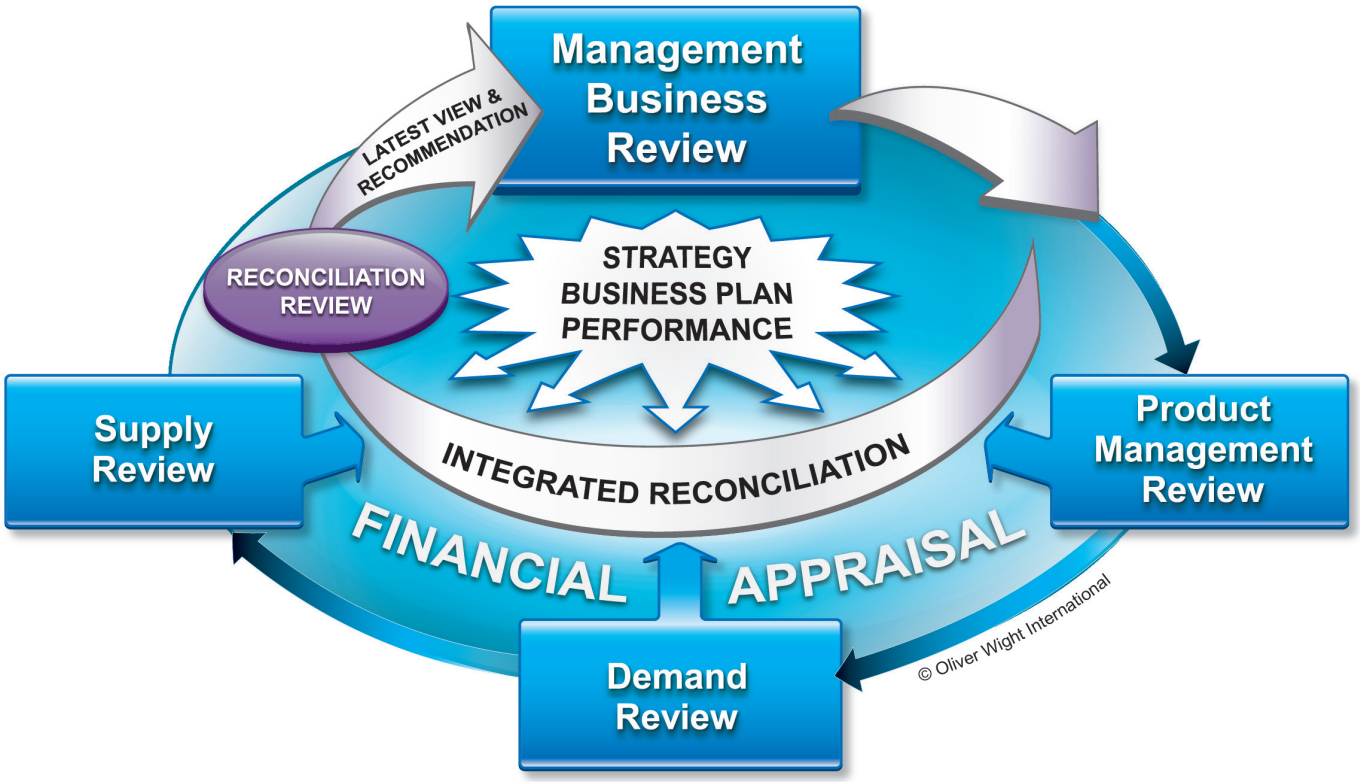
implemented, the orientation of the financial organization shifts from backward-looking reporting and analysis to a much more future focused and decision-supporting orientation based on scenario planning.

INTEGRATED BUSINESS PLANNING IN BRIEF

Integrated Business Planning is a simple, common-sense process for aligning company plans and actions every month (see Figure 1). It requires that the management team review the projected demand generated from product and portfolio management, sales, and marketing activities over a planning horizon of typically 24 months or more.

The purpose of this review is to validate that the demand plan reflects the company's strategic goals and objectives and the realities of the current market place. The associated supply plan also must be validated to ensure that the resources are available, aligned, and balanced to satisfy demand and meet objectives regarding quality, cost, inventory, etc. The financial plan is derived from the product management, demand, and supply plans, and is reviewed to ensure it is aligned with the company's financial strategy, goals, and objectives.

Figure 1. Integrated Business Planning Model



Integrated Business Planning typically involves the following steps in the process:

1. Product Review, where product plans for introduction and/or phase-out over the planning horizon are validated; the product portfolio is thus updated and confirmed.
2. Demand Review, where the total forecasted demand opportunities are developed and supported with sales and marketing action plans and turned into formal requests for product. A financial appraisal is part of a Demand Review to understand the implications and impacts of the volume plan on the latest revenue and margin projections.
3. Supply Review, where Operations determines how to commit the resources required to deliver what is being requested. A financial appraisal is part of a Supply Review to understand cost implications and impacts of the production and resource plans on margins and working capital.
4. Financial Review, where the latest financial projections are evaluated to determine impacts on financial and investment strategies and goals.
5. Integrated Reconciliation, where opportunities and issues arising during the process are resolved at the lowest practical level and/or deferred to senior management for deliberation, decision, or direction.
6. Management Business Review, where the senior management team reviews the plans and any identified opportunities/issues/gaps to the business plan and strategic plan, provides decisions and direction, and approves a balanced and integrated operating and financial plan.

It should be noted that some companies might include an Infrastructure/ Administration Review as part of the IBP Process. This review becomes important, especially when companies are investing significant time and money to invest in facilities, capital equipment, and technology.

Large, global, multi-division, multi-channel companies may also have a separate Strategy Review to monitor the global market place, economic conditions, competitive actions, technology changes, market share, customer penetration etc.

PLANNING HORIZON BECOMES MORE IMPORTANT WHEN TRANSITIONING FROM SALES AND OPERATIONS PLANNING TO INTEGRATED BUSINESS PLANNING

As companies, and the industry at large, have transitioned from Sales and Operations Planning to Integrated Business Planning, the rolling planning horizon has become extended. Immature S&OP processes frequently focus on the near term and, at best, had planning horizons that cover this fiscal year. Often, in the past, the planning horizons were fixed time periods tied to the fiscal year so that the planning horizon actually got shorter as the year progressed. At some point the following fiscal year would be planned, usually as part of an annual planning or budgeting process.

Some years ago, it was realized by innovative companies that an 18-month rolling planning horizon would greatly simplify the annual planning process. Since the Sales and Operations Planning process covered 18 months, the business would have six monthly review cycles to review the next fiscal year's plan before the beginning of the fiscal year. This was a process improvement enjoyed by many companies but proved too short for companies that were maturing their S&OP processes into Integrated Business Planning.

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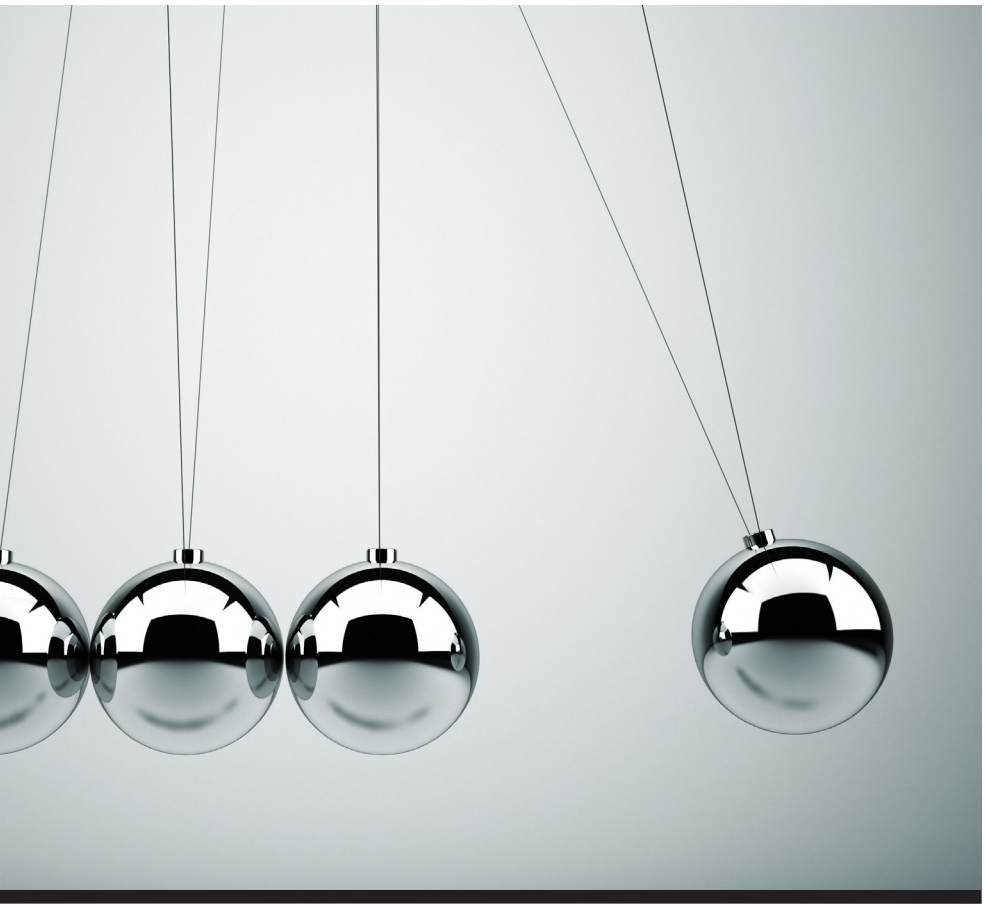


Integrated Business Planning not only addresses balancing of demand and supply, but also monitors performance to the strategic plan. Monitoring how well the strategic plan is being executed involves reviewing strategic initiatives, action plans, and actual and projected results.

As a result, by necessity, the planning horizon needs to be longer term to provide visibility and transparency to current and anticipated action plans in support of strategy. Moving to a 24-month rolling planning horizon meets the needs of a majority of companies. Some companies, however, prefer a monthly review of 36 months rolling because of the lead time required to execute key strategic decisions. Visibility and inclusion of anticipated results of strategic decisions is an industry best practice.

By using at least a 24-month rolling planning horizon, additional benefits are realized. One of the objectives of the IBP process is to review a bottoms-up set of plans and compare the anticipated results with strategic goals. Since strategic goals are most often stated in annual terms, using a 24-month rolling planning horizon

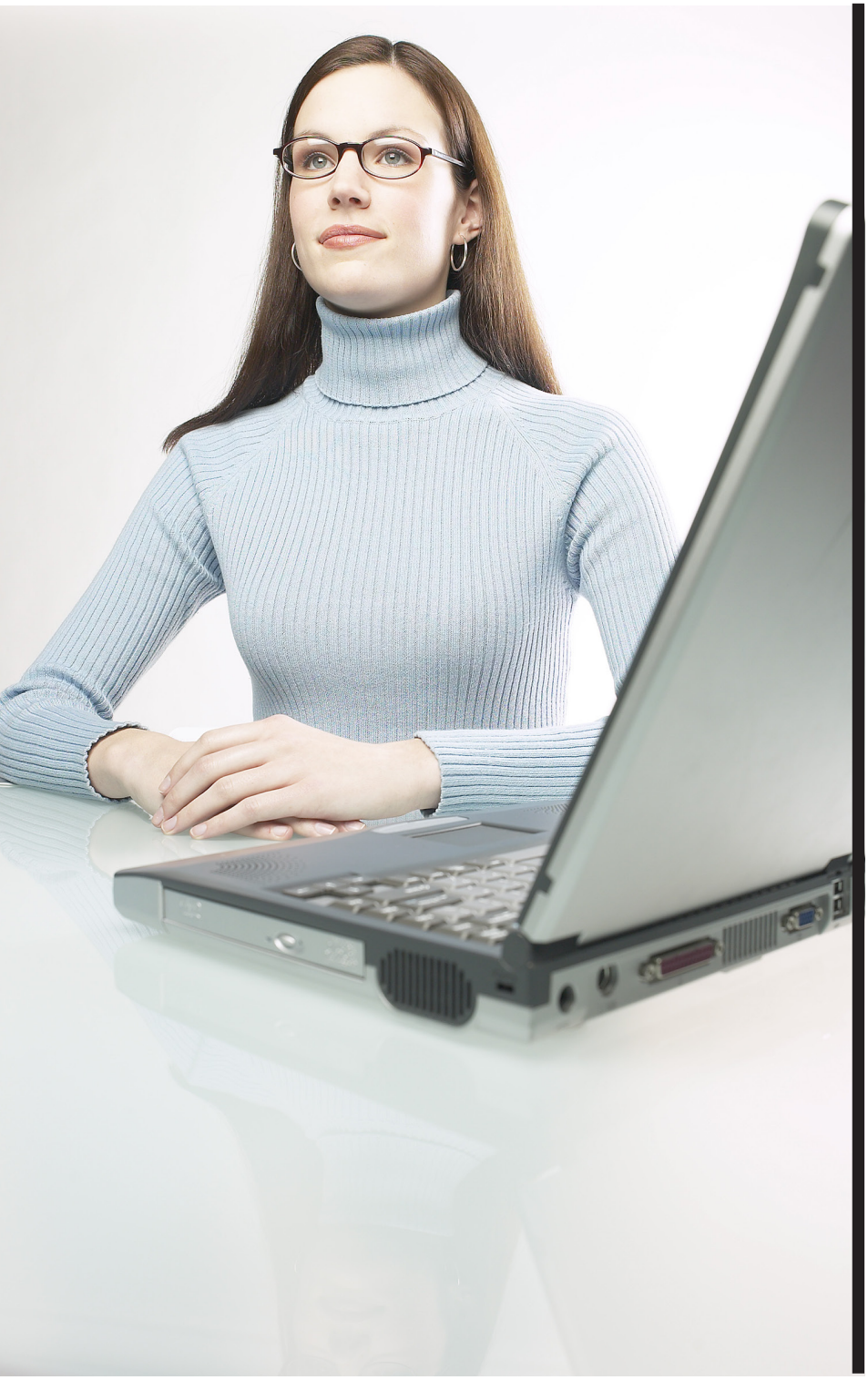
> *It provides greater visibility and early identification of gaps between current plans and top-down strategic goals.*

allows the aggregation of the monthly data into annual fiscal time periods. This approach enables the annual bottom-up plan to be compared to the strategic goals.

It also provides greater visibility and early identification of gaps between current plans and top-down strategic goals. With this visibility, the leadership team can take action to close the gaps. The 24-month rolling horizon also connects more easily to financial planning, since two full fiscal years are always visible and year-over-year growth plans are easily identified.

We often hear that "we can't forecast that far out." A counter to that argument is that some find forecasting further out easier than forecasting near term. First, less detail and granularity is needed in outer time periods. More aggregate numbers suffice to support the business assumptions across months 12 to 24.

Second is the argument that the investment community has made a good-faith investment based upon anticipated results (a forecast). So someone is forecasting in those out periods.



For those who are fearful of being blamed for poor forecasts, we often suggest that this will most likely not be an issue since most people will be in a different job in 24 months and not in a position to be blamed. And if that is not enough, you get to update/change the forecast up to 24 more times before actual performance is compared to the forecast.

In practice, the forecasts in the outer planning periods represent the quantification of anticipated action plans in support of market assumptions. As such, these forecasts serve as a communication methodology to provide clarity of direction and purpose to a diverse group of people and functions that are required to support the company strategies and plans.

Our advice to those of you striving to improve your S&OP process and to transition it to Integrated Business Planning: Support a rolling planning horizon of 24 months or more. Trust us when we say that you and your executive team will like it!

To talk to an Oliver Wight Integrated Business Planning (Advanced S&OP) expert on implementing or improving Integrated Business Planning (Advanced S&OP), please contact www.oliverwight-americas.com or call 800-258-3862.

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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