INTEGRATED PLANNING FOR CONSUMER PRODUCTS: A CENTRALIZED APPROACH TO DEMAND, SUPPLY CHAIN, AND OPERATIONS PLANNING

April 2016

Nick Castellina, Research Director,
Business Planning and Execution

Report Highlights

p2

The top challenge facing manufacturers is unpredictable demand.

p4

Leaders are 79% more likely to have technology for demand planning and forecasting.

p6

Those with demand planning are 2.3 times as likely to have real-time collaboration across functions.

p8

Those with demand planning average 90% complete and on-time delivery.

This report identifies how a consumer products manufacturer can improve their technology environment to take an effective, holistic approach to planning.

ABERDEEN GROUP

2

Producing either too much or not enough of a product can have a significant impact on the bottom line, effecting all functions of the business. A holistic approach to running an organization ensures minimal costs and an advantage on opportunities.

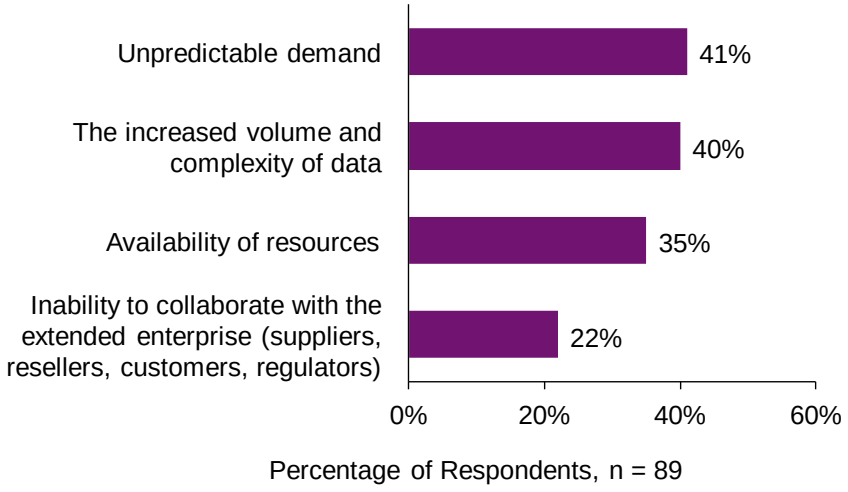
In the competitive consumer products manufacturing industry, satisfying customers while keeping costs low is of utmost importance. Therefore, these manufacturers must run a very tight ship. Producing either too much or not enough of a product can have significant impact on the bottom line. Further, those decisions can cause wide ranging effects across all functions of the business from finance through the shop floor. To minimize these problems, manufacturers must run their organization holistically to ensure that everyone is working in lock step to minimize costs and take advantage of any opportunities. Of course, the ability to do this all starts with accurately predicting demand. When this happens, the organization can integrate plans for finance, supply chain, and operations. This is easier said than done — top performing manufacturers have help. This comes from technology that is specifically built to manage demand, supply chain, and S&OP. This report identifies how a consumer products manufacturer can improve their technology environment to take an effective, holistic approach to planning.

Demand Triggers Actions

Aberdeen's ERP and Business Management survey asked manufacturers to identify their top two pressures (Figure 1). These pressures are particularly relevant for consumer goods manufacturers as they attempt to manage their organizations to effectively manage demand and maximize profits.

3

Figure 1: Top Manufacturing Challenges



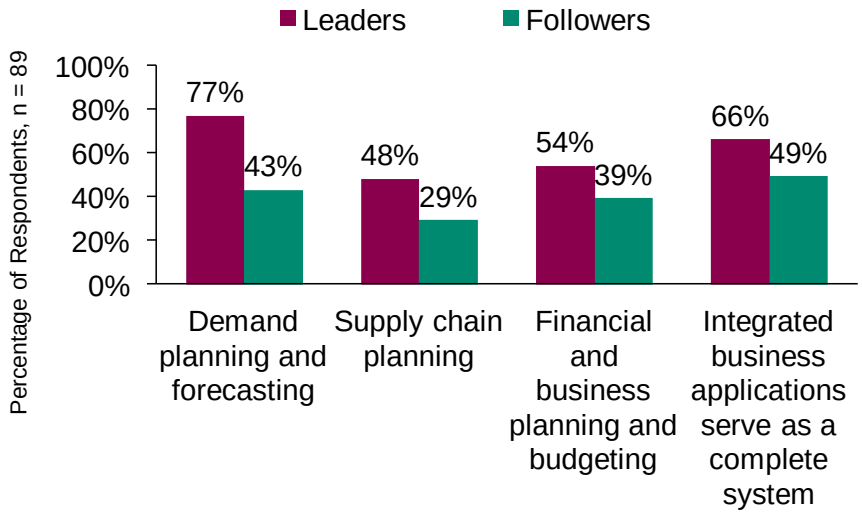
Source: Aberdeen Group, March 2016

Not only is unpredictable demand one of top pressures today, but other pressures can be related to the needs of a consumer goods manufacturer that wants to run an operation that utilizes demand signals in order to manage all aspects of their organization. When it is difficult to predict demand, there is significant risk of either over purchasing or under purchasing materials as well as over or under producing. Any of these scenarios can lead to increased costs and lost profits. Therefore, a consumer goods manufacturer must take a holistic approach to planning to maximize their resources. They must work internally to manage sales, finance, product development, manufacturing operations, and the supply chain as well as with external parties such as customers, suppliers, and regulatory bodies. Unfortunately, many struggle with understanding complex data to accurately predict demand and then convert that data into plans that run the rest of the organization effectively.

4

In order to minimize these challenges consumer goods manufacturers must rely on technology in order to help them take a holistic approach to sales and operations planning. Leading manufacturers are more likely to have technology integrated with their Enterprise Resource Planning (ERP) software that provides functionality that helps to predict demand and resource needs and then convert that information into agile, informed, and accurate plans (Figure 2).

Figure 2: Leaders Integrate Planning Software with ERP



Source: Aberdeen Group, March 2016

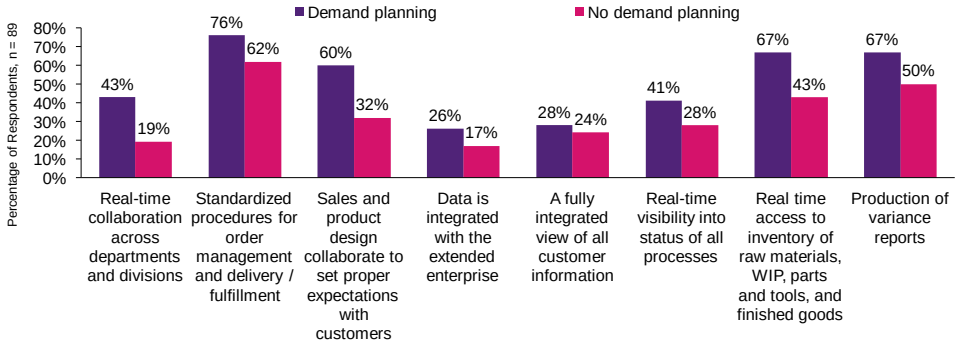
For example, Leaders are 79% more likely to have technology for demand planning and forecasting. This technology monitors demand signals and helps to automate the actions that should naturally flow from demand forecasts. This is reflected in supply chain plans as well as financial plans. This information can inform investments across the business from product planning to long term strategy. Ultimately, demand planning should have a waterfall effect across the organization as it attempts to excel in sales and operations planning. This is enabled by holistic

5

planning, which is why Leaders are 35% more likely to have integrated applications that serve as a complete system.

To understand how this type of software environment can improve a consumer product manufacturers ability to improve supply chain, sales, and operations planning, study the differences in the capabilities that are likely to be implemented in organizations with demand planning software in comparison to organizations without (Figure 3). These capabilities are enabled through the software and lead to more holistic plans that will drive efficient and effective operations.

Figure 3: Planning Functionality Improves Operations Management



Source: Aberdeen Group, March 2016

These capabilities can be divided into three groups: internal collaboration, external collaboration, and real-time operations management. First, understand how demand planning software can impact internal collaboration leading to improved operations.

Those with demand planning software are over twice as likely to have real-time collaboration across departments and divisions.

Similarly, these same comparisons can be made between those with supply chain management software and those without. Compares the differences in adoption rates below:

- **Real-time collaboration across departments and divisions:** 59% vs. 21%
- **Standardized procedures for order management and delivery:** 73% vs. 67%
- **Data is integrated with the extended enterprise:** 27% vs. 17%
- **A fully integrated view of all customer information:** 26% vs. 23%
- **Real-time visibility into the status of all processes:** 44% vs. 28%
- **Real time access to inventory and materials:** 73% vs. 42%
- **Production of variance reports:** 92% vs. 45%

Due to their ability to better predict demand, these organizations can share that information across functions to help dictate how those functions act. For example, this may cause changes to the amount of materials that are being purchased. Or it could trigger increases in production or changes to product offerings. Ultimately, the information generated through demand planning leads to more cohesive planning across the organization, which is evidenced by the fact that those with demand planning are more able to standardize their production planning and execution while connecting sales and product development.

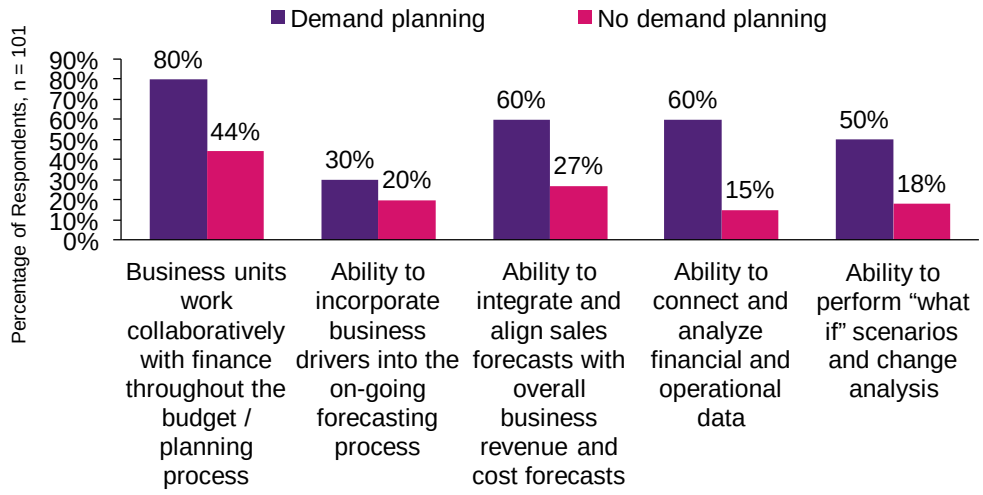
Of course, for operations plans to truly be complete, they must consider factors external to the organization. For consumer product manufacturers, they must consider the amount of specific products customers are asking for, the materials and the prices for those materials that are available, and regulatory pressures that can impact the amount of certain products that can be produced. For example, production cannot be increased to meet demand if materials are unavailable. Or if a regulatory body places limits on the shelf life of a certain product, old products cannot be sold even if there is demand for it. Those with demand planning are 47% more likely to integrate data with the extended enterprise, including capabilities like full views into customer information.

Lastly, demand planning software provides the information that consumer products manufacturers need in order to react on the fly to demand trends and alter their operations accordingly. This requires real-time visibility into processes, inventory and materials, and variances. With visibility into demand, these organizations can operate functions in lock-step to ensure that

attractive prices are obtained, products do not sit on the shelves, and customers are satisfied.

Truly, demand planning software can have organizational impact beyond day to day operations. This information can impact long and short-term financial planning which will inform investments across the business. Aberdeen's Financial Planning, Budgeting, and Forecasting survey uncovered the capabilities that are more likely to be implemented in organizations with demand planning (Figure 4).

Figure 4: Planning Functionality Enables Smart Spending



Source: Aberdeen Group, March 2016

Since the line of business can work collaboratively with finance in organizations with demand planning software, finance can get a true idea of potential revenue and profits. These crucial business drivers will therefore color financial forecasts. Further, organizations with demand planning functionality are more

likely to be able to align sales forecasts with operations plans. The ability to have all of this data integrated holistically enables organizations to take a full approach to planning. They can mix and match different scenarios and alter supply chain, manufacturing operations, or investment decisions accordingly. This final step can complete a consumer products manufacturer's ability to create a holistic plan for financial, supply chain, sales, and operations planning.

The Benefits

Since demand should drive plans and actions for functions across a consumer goods manufacturer, it is natural to note that those with demand planning software are able to drive improvements in metrics that should be impacted by smart decisions related to demand. For example, those with demand planning technology are able to drive 90% complete and on-time delivery in comparison to 87% for those without this technology (Table 1). This is because these organizations are able to ensure that the products that their customers need are available and can efficiently get them out the door when those customers need them. In fact, these organizations experience better schedule compliance for functions across the organization, leading towards more favorable inventory levels. This all results in happier customers, leading to more sales, which are partnered with lowered costs. Ultimately, this is why those with demand planning software saw a 9% improvement in profit margins over the past two years.

Table 1: The Results

Average performance	Demand Planning	No Demand Planning
Complete and on-time delivery	90%	87%
Internal schedule compliance	89%	83%
Improvement in inventory levels as a result of solutions	9%	8%
Customer satisfaction	78%	72%
Improvement in profit margins over the past two years	9%	5%

Source: Aberdeen Group, March 2016

Key Takeaways

Planning software is an essential part of success for consumer goods manufacturers. Accurate insight into demand can help your organization to avoid inventory holding costs, purchase materials at favorable prices, and provide products to customers when they need them. This will result in customer satisfaction and profit margins. In order to take advantage of these benefits, heed the following recommendations:

- **Combine ERP with demand, supply chain, financial, sales, and operations planning technology.** These technologies help to manage planning process flows while providing intelligence that can help to make forecasts more accurate.

- **Take a holistic approach to planning. Plans cannot exist in silos.** Every action in an organization has a reaction somewhere else within that organization. Successful consumer goods manufacturers, integrate their financial, supply chain, sales, and operations plans.
- **Collaborate internally and externally.** In order to create these plans, data must be shared both across functions as well as with those outside of the organization. Supply chain and manufacturing operations should be working with customer service to ensure that demand is met. Sales and finance can work together to understand how revenue will impact investments. All of this will require working with customers and the supply chain in order to make sure that inventory is handled appropriately.

Pairing ERP with operations planning software is the key to profitable growth.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

ERP's Impact on Demand Planning: Crucial Capabilities for Accurate Forecasts; August 2015

Reduce the Friction in Manufacturing Operations Planning with ERP and MES; July 2015

Are You Asking the Right Questions when Selecting an ERP System?; June 2015

The Unified Manufacturing Environment: Transparency, Collaboration, and Decision-Making with End-to-End ERP; May 2015

Author: Nick Castellina, Research Director, Business Planning and Execution (nick.castellina@aberdeen.com)

About Aberdeen Group

Since 1988, Aberdeen Group has published research that helps businesses worldwide improve their performance. Our analysts derive fact-based, vendor-agnostic insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategy. Aberdeen Group is headquartered in Boston, MA.

This document is the result of primary research performed by Aberdeen Group and represents the best analysis available at the time of publication. Unless otherwise noted, the entire contents of this publication are copyrighted by Aberdeen Group and may not be reproduced, distributed, archived, or transmitted in any form or by any means without prior written consent by Aberdeen Group.