Informative guides on industry best practice

OLIVER WIGHTPAPER series

Integrated Business Planning

Retail's Therapy



Inspiring
Business
Excellence



Mike Reed

Introduction

The retail industry is a difficult terrain to navigate. Following years of tough, frankly bleak conditions, at last the retail market is showing positive signs. But amidst changes to welfare and taxation and a slow and wobbly recovery from the Global Financial Crisis, the retail industry has certainly not felt the last of its pain. Those retailers that wish to not just survive but flourish, must think carefully about how they can adapt their offering to suit the market not just now, but in 5, 10, 15 years' time. Integrated Business Planning, with its power to plan the business over a 24- to 36-month rolling horizon, is a retailer's most potent weapon.



Ron Ireland

The retail challenge

As the saying goes, 'change is the only constant', and perhaps there is no better affirmation of this than in the retail industry. With rapid and unpredictable changes in fashion and consumer preferences, and substantial seasonal variations, retailers have their work cut out. Couple this with growing competition from overseas, as well as closer to home, the growth of omni-channel retailing, rising customer preference for online shopping, and ever strong demand for lower cost products matched with better service, incremental change is not enough. Retailers need a transformational change to ensure their business models are up to scratch to fit the new retail climate.

Today's leading retail executives are reviewing their strategies for the next few years and asking some tough questions: how to reduce inventory while offering a broader product range to customers; how to reduce store sizes while encouraging in-store visits; and what impact these changes will have on demand plans, supply chain fulfillment and ultimately, financial goals.

Up until now, the complexity of handling such a broad range of items and large number of retail outlets has left many retailers concentrating on short-term replenishment to maintain shelf inventory. Typical retail processes in place today are focused on tactical collaborative forecasting and replenishment planning in the 1-to-26 week window at stock keeping unit (SKU) level, and executed by middle management. However, if retailers are to continue improving service, while increasing profits, they need to adapt their offering to suit the ever-demanding customer of tomorrow and take advantage of the vast array of opportunities the global economy presents. For this, a long-term view is essential.



Integrated Business Planning tops retailers' wish list

In recent years Integrated Business Planning (IBP) has become the 'gold standard' for the way successful businesses are run. Already incredibly popular in manufacturing and engineering environments, an increasing number of retailers are now recognizing the power of IBP in providing the senior executive team an accurate and holistic view of the business over a 24- to 36-month forward view.

IBP provides the perfect platform for retailers to innovate, creating opportunities to drive sales up and costs down, and allocate resources to the most productive activities. Not only does it allow the prediction of new trends, but gives retailers the opportunity to respond positively to changing conditions in plenty of time.

Initially a sales and operations planning (S&OP) tool, IBP has evolved over the past 30 years to extend the principles of S&OP throughout the supply chain, product and customer portfolios, customer demand and strategic planning, to deliver one seamless management process.

Powered by a monthly planning and review cycle, IBP has five sequential steps (see figure 1):

1. Product Management Review
2. Demand Review
3. Supply Review
4. Integrated Reconciliation Review
5. Management Business Review



Figure 1: Integrated Business Planning Model

These are not a series of discovery meetings but a continuous process of orchestrating those who are business-accountable to review, present and communicate progress and change. The output of these reviews is an updated integrated long-term plan, highlighting any performance gaps compared to the strategic plan, and enabling the senior executive team to make effective, informed business decisions.



Buying in to the process

So where does IBP in the retail environment begin? While everybody in the organization needs to buy in to IBP and commit to it, ultimately that commitment has to begin at the top. If IBP is to be the process that runs the entire business, by definition, the business leader must be committed to it; failure to gain executive backing for the IBP process means the process is destined to fail. Then, process owners are needed for each of the five key monthly steps to fully embed the new model. It's always best to involve the organization's very best people since, by definition, they will be the most effective and influential in establishing the process with the rest of the workforce.

The steps and principles of the IBP process are the same for retail as they are in manufacturing. The primary difference is the role and title of the process owner for each review (see figure 2). Some of the content, including the topics, issues, data and types of decisions made will also be different. For example, while a manufacturer may focus on category management and customer segmentation to formulate a demand plan and shipment forecast, a retailer may discuss merchandising vehicles and replenishment strategies to formulate a retail demand plan and point-of-sale forecast.

Let's look at each of these reviews and the relevant process owners in the retail environment, in a little more detail.

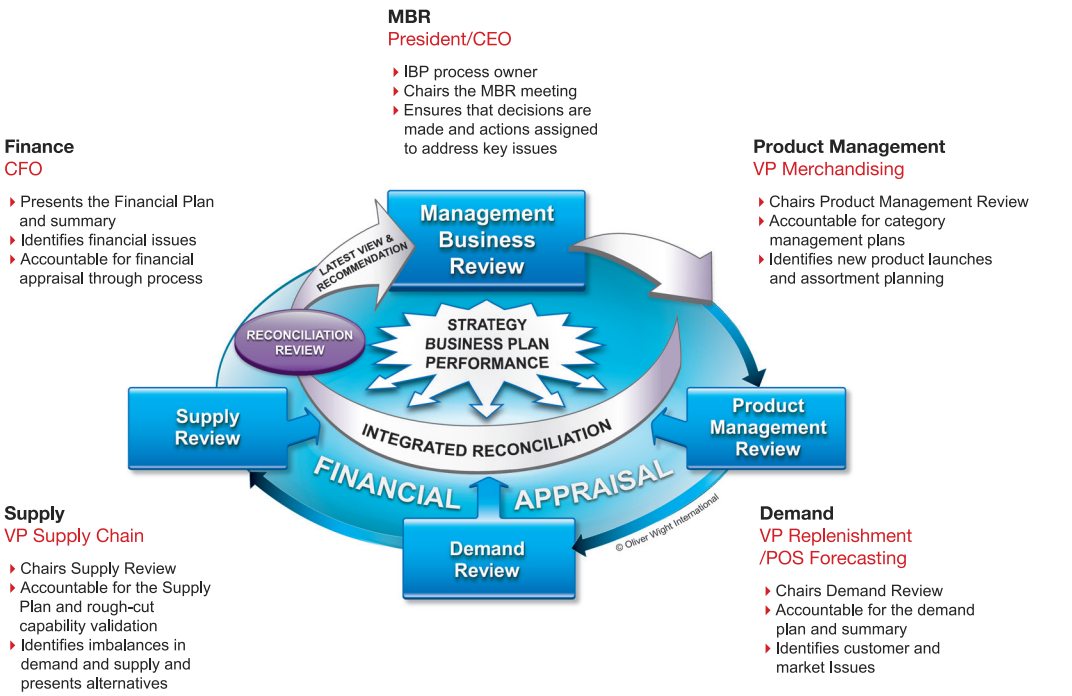


Figure 2: The retail Integrated Business Planning process

The Product Management Review

The primary purpose of the Product Management Review is to plan and manage product portfolios, 'category management' or 'assortment planning', as some retailers may refer to it. Plans which are made and reviewed in the product management process include new product launches, phase-in and phase-out schedules, pricing strategies, product sustainability development, new product designs, product packaging designs, marketing and promotional material plans, seasonal event planning, and financial appraisals of margin goals for individual products, as well as category performance.

The process owner for product management is typically the merchandising director or VP, and so they too, take the role of chair for this review process. A product management process coordinator supports the process owner, preparing the material for the monthly meeting. By definition this step manages the greatest area of uncertainty but at the same time, has the greatest area of potential reward through rejuvenation of brands, categories, products, and merchandise.

Attendees of the monthly Product Review meeting include the directors or leaders of each retail merchandise category, as well as a representative from finance. Other process coordinators from demand, supply, as well as the IBP coordinator, are also encouraged to attend, ensuring integration of activities across the reviews. Each director of a product category prepares the material to be reviewed in the monthly meeting and presents it over a rolling planning horizon of a 1 to 24 months.

As with any best-in-class IBP review meeting, primary focus should be on exceptions and making strategic decisions; centering on events and plans with planning horizons of 4 to 24 months. In addition, most of the review will be focused at a product or category aggregate level, with minimal discussions at the SKU level of detail. Projects are monitored to ensure they are on time, resourced effectively, and will deliver the expected margin and growth targets. The portfolio will be reviewed to ensure a valid product plan is in place and that resources and activities are prioritized according to strategic value.

A typical agenda for the monthly Product Management Review meeting includes:
• Reviewing key performance indicator scorecards for product management – merchandise planning
• Reviewing prior month action items

• Engaging in a family review (i.e. retail merchandise category)
- New category layout plans
- New product launches
  • Changes in assumptions
  • Status of concerns or issues
- Significant changes in the category plans
- Changes in pricing strategies
- Promotional and marketing plans
- Special product buys

• Discussing risks and opportunities and gap-closing actions
• Making key category management decisions
• Establishing new action items

Demand Review

The IBP Demand Review meeting typically occurs two to four days after the Product Management Review. The primary purpose of the Demand Review is to reach consensus on the demand plans and forecasts, by merchandising category, store format and online sales, with a rolling planning horizon of a 1 to 24 months at an aggregate product level. Crucially, this is when actions are developed to close gaps or exploit opportunities to drive more sales.

For the retail industry the demand review process is owned and chaired by the key demand generation functions, either the replenishment director or the VP for stores operations or merchandising. The demand review process owner is also responsible for the point-of-sale (POS) forecasting and assumption management. As with the product review, a demand management process coordinator supports the demand review process owner, preparing the material for the monthly meeting.

Attendees of the monthly Demand Review meeting include the directors or regional vice presidents of store operations, store replenishment, online sales. marketing, and store-level POS forecasting managers, as well as a representative from finance. Process coordinators from product and supply can also attend, along with the IBP coordinator.

The Demand Review is focused primarily on changes in assumptions that impact demand in the 4- to 24-month horizon. Again, discussions will be had at a product family or category, rather than SKU, level. Store-level demands, including new store developments, expansions, formats, and closures, are on the agenda.

A typical agenda for the monthly Demand Review meeting includes:
• Reviewing key performance indicator scorecards for store operations, store replenishment, and point of sale (POS) forecasting
• Reviewing prior month action items
• Considering assumption changes by family (merchandise categories, store segmentations, geographic regions) - Store expansions, closures - Internet based sales demands and trends - POS forecasts and consumption trends - Seasonal and store-level event plans - Merchandising and marketing store-level execution plans - Advertising and promotional plans - Competition - Market trends
• Discussing risks and opportunities in the plan, gap-closing actions
• Making key decisions and gaining approval of the plan
• Establishing new action items

One of the key benefits of the IBP Demand Review is the extended horizon that allows greater visibility and alignment of key promotional and shelf-planning activities, which can then be shared with manufacturers to optimize spend activities. Supply chain collaboration can have a major impact on performance levels. In fact, it can reduce operating costs by up to 50 percent at the same time as improving customer service levels. One major retailer Oliver Wight has worked with, found collaboration across a longer horizon and strategic level allowed them to catch significant disconnects with a major manufacturer. Focus categories and planned advertising were not being synchronized with the retail promotional plans. Once they began working together on this, it allowed for early warning of changes in plans, providing significant improvement in business results for both parties.

Supply Review

The Supply Review meeting is the next sequential step, typically two to four days after the demand review. The main objective of the supply review is to assess the retail supply chain capabilities for store-level, as well as distribution center order fulfillment, over a rolling planning horizon of 1 to 24 months at an aggregate product level.

The Supply Review process is owned and chaired by the supply chain director. Their role lies in cost-effectively delivering the demand and new product plans. A supply chain process coordinator prepares the material for the monthly IBP Supply Review meeting.

Attendees of the monthly Supply Review meeting include representatives from logistics, including transportation, distribution center (DC) management, third party logistics/wholesaler management, DC replenishment, and purchase order forecasting and processing. As in the other process reviews, a representative from finance is also present as well as the other process coordinators.

The monthly Supply Review will be focused on product fulfillment capabilities as well as rough-cut capacity planning for transportation, warehousing, and the ability of supply chain partners to satisfy the store- and DC-level demand for products. All plans should be based on demonstrated capabilities through metric analysis to ensure a valid supply plan exists to meet the consensus demand plan.

A typical agenda for the monthly Supply Review meeting includes:
• Reviewing Key Performance Indicator scorecards for supply chain operations, logistics, distribution center replenishment, order forecasting, and supply chain partners' scorecards
• Reviewing action items from prior month
• Reviewing of supply chain capabilities and issues by category - Sourcing strategies - Storage and transportation capacity - Network modifications - DC/Warehouse expansions or modifications - Order forecasts - Vendor supply plans and capability issues or opportunities
• Making key supply chain decisions
• Establishing new action items

Integrated Reconciliation and Financial Appraisal

The Integrated Reconciliation (IR) step is owned by the CFO and is used to resolve issues discovered during the monthly IBP review cycles. The goal of the IR step is to resolve as many issues as possible without having to escalate them to the executive-level Management Business Review (MBR). Resolving these issues may be done using one-on-one or small group meetings. For issues that are not resolved prior to the MBR, the IR team members will formally define the issue, provide solution alternatives, and make a recommendation to the senior executives at the MBR so they can make an informed decision.

Throughout each of the reviews, a financial appraisal has been occurring, assessing the financial impact of decisions made and highlighting any gaps between reality and the business strategy. The financial appraisal in the IR process summarizes these findings and identifies any additional gaps or opportunities that may not have been visible in the individual reviews, ready to be presented to executive management in the MBR.

The CFO or the IBP coordinator owns and leads the integrated reconciliation review, and hence the profit projections coming out of the proceeding steps. The IBP coordinator will serve as process coordinator to prepare the review material for the MBR.

A typical agenda for the monthly Integrated Reconciliation meeting includes:
• Preparing the Management Business Review (MBR) summary material: - Product - Demand - Supply - Finance
• Reviewing the decisions made during the product, demand, and supply reviews that month
• Establishing what decisions must be made at the next MBR with supporting scenario documentation and recommendations



Management Business Review (MBR)

The MBR is a decision-making process, focused on a rolling business horizon of 4 to 24 months. The highest level executive in the retail organization, typically the CEO, president, or general manager, is the executive sponsor and process owner of the MBR. Attendees are the process owners of each review and include the CFO as well as the IBP process coordinator.

A typical agenda for the monthly Management Business Review meeting includes:
• Reviewing the state of the business over the next 1 to 24 months for: - Product - Demand - Supply - Finance
• Reviewing the decisions that need to be made and considering the documentation and recommendations provided from the Integrated Reconciliation process
• Making key business decisions and establishing action items
• Approving the proposed plans from each step of the process

Know what's in store

Retailers have always planned strategically for store growth, new store formats, distribution center constructions, acquisitions, supply chain expansions and optimization, as well as product category redefinitions and product co-development efforts with suppliers. But too often, they have lacked the proper processes to be able to assess how these activities impact the committed plan over a long enough horizon to make cost-effective trade-offs and establish contingency plans. This is an issue, which has become even greater in recent times with the expansion of omni-channel consumer shopping preferences, both online and in the physical store.

The greatest benefit of IBP is the integration of business planning processes over this longer planning horizon and the transparency of plans, which break down the traditional functional silos and suboptimized decision-making prevalent in organizations. Rather than each department focusing on functional goals at the expense of other areas of the organization, or firefighting and reactionary planning, the business works cross-functionally, creating common goals and plans, proactively exploiting opportunities, at the same time as improving business performance.

But what about the complexity of managing so many items and retail outlets? When one retail demand manager asked Oliver Wight 'can IBP manage my 750,000 items?' the answer was 'yes'. IBP has been designed, and indeed has demonstrated it's effective in managing a vast number of SKUs. Even when the demand manager added that its competitor could hold more than a million items, Integrated Business Planning was still able to provide a competitive advantage over those not using it. While IBP's focus is on long-term business planning rather than aggregate management, the model makes sure the aggregate and details are kept in line.

Don't be a closed shop

Over the past decade, Integrated Business Planning has evolved to reach the supply chain collaboration stage – whereby, the Integrated Business Planning process is integrated up and down the value chain. No longer is a single node of the supply chain optimized, but several. Imagine a collective mindset of delivering superb customer service, at a fraction of the competitors' costs, complete with seamless flow of demand information, and an intense collaboration in managing the highly uncertain area of bringing new products to market. Seem attractive?

IBP equips retailers with the tools to strategically share excellent customer service, capability readiness, contingencies for uncertainty, value-chain profit-to-serve and collaborative competitiveness across the supply chain. And since many manufacturers have already advanced their planning processes enough to want to collaborate across the extended supply chain, including with their retail counterparts, retailers stand in good stead.

With its enormous powers in business decision-making, integrating IBP across the supply chain is the ultimate competitive tool and industry protection strategy.

Collaboration in the bag

The benefits of collaboration don't have to stop there. Leading companies who continue to migrate towards excellence in business processes and strengthen their supply chain - both within their own corporation and externally with their trading partners - are realizing the benefits of linking two leading supply chain best practices together: Integrated Business Planning and Collaborative Planning, Forecasting and Replenishment (CPFR®) .

While CPFR® is the leading external collaboration tool - covering a lot of detail, with a near-term planning horizon of weeks/months - IBP is a powerful internal management process, looking at the wider strategy and focusing on the long-term horizon of an 18- to 24-month rolling horizon. By linking these two successful tools together, each becomes even more effective, and the collaborative benefits even greater.

The man behind this vision and who initially linked the two processes was Wal-Mart founder, Sam Walton. He believed that by partnering with Wal-Mart vendors and sharing information with them, better planning decisions could be made to the benefit of everyone in the supply chain. In his own words, "Communicate everything you possibly can to your partners. The more they know, the more they'll understand. The more they understand, the more they'll care. Once they care, there's no stopping them."

So how do you integrate the two processes? Valuable information, demand forecasts, point-of-sale data and inventory positions, for example, are 'pitched' through CPFR®, and 'caught' by the trading partner, where it can then be incorporated into the demand planning process, as part of IBP. Once aligned with product and supply, and integrated with the

business strategy, the trading partner's capability and needs can be 'pitched' back, to ensure there is mutual understanding and that everyone is working to one set of numbers.

Linking the processes is invaluable. The customers' input through CPFR® is more accurate than the vendors' demand forecast, so the more trading partners participate in the CPFR® program, the more accurate demand plans can be. Not only is it the logical step in improving forecast accuracy and supply chain collaboration, it provides early warning of demand and supply synchronization issues between partners, allowing them to work together to develop win-win solutions. On top of this, it helps with new product launches, by creating greater visibility across the extended supply chain.

Retail success

Collaboration makes good business sense. Retailers need to optimize their profits, but not at the expense of sacrificing customers' needs. Integrated Business Planning, with its powers to integrate diverse processes from across the organization into one seamless management process, equips retailers with a holistic view of the business over a 24- to 36-month rolling horizon, providing the perfect platform to innovate, drive sales up and costs down, predict future trends and respond positively in plenty of time.

IBP really bears fruit once integrated up and down the supply chain, as collaboration with manufacturers and other supply nodes becomes effortless. And when it is linked with CPFR®, retailers find themselves in a stronger position still; able to fend off industry uncertainty, and equipped to handle changing consumer habits, global competition and the need for constant innovation. Retail IBP is the most powerful weapon for success.



About Oliver Wight

At Oliver Wight, we believe sustainable business improvement can only be delivered by your own people; so, unlike other consultancy firms, we transfer our knowledge to you.

Pioneers of Sales and Operations Planning and MRP II, Oliver Wight professionals are the acknowledged industry thought leaders for Integrated Business Planning (IBP) and Supply Chain Planning. Integrated Business Planning allows your senior executives to plan and manage the entire organization over a 24-month horizon, while Oliver Wight's extended Supply Chain Planning and Optimization ensures your supply chain is designed and structured to deliver best-in-class customer service with minimal costs.

Using the Oliver Wight Maturity Model to pursue our globally recognized Class A standard for best practice will determine a tailored improvement journey for you to develop your organization's processes, and reach and sustain excellent business performance. With a track record of more than 40 years helping some of the world's best-known organizations, Oliver Wight will help you define your company's vision for the future and deliver performance and financial results that last.

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