Integrated Business Planning: Powering Agility in a Volatile World

Seven Success Strategies for Your IBP Journey



Executive Summary

Economic, political and environmental challenges combined with the growing complexity of global operations have made Integrated Business Planning (IBP) a top corporate priority. Indeed, the potential is tremendous in the most volatile business climates - for this process which aligns sales, operations, finance and other functional areas of the organization into a single line of sight, from plan to performance to profit.

Internal alignment is just part of the IBP process to create company agility that can recognize, recalibrate and respond to changing conditions. It is equally critical, in the face of today's highly outsourced and distributed supply chain, that businesses enable collaborative inputs from customers and suppliers in their planning process as well. According to leading research firm, Gartner, the majority of large global manufacturers are looking to advance their current Sales & Operations Planning (S&OP) initiatives to also include a full view of the financial impacts of their supply and demand balancing options to inform better, more timely, strategic decisions.

This journey to true IBP, which will allow them to do strategic, bottom-line oriented "what if" scenario modeling, must be powered by process-enabling technology which can move at the pace of today's global business environment. In this whitepaper, we take a look at how innovative IBP technologies can help drive the right process and the best business value in an environment where volatility is the "new normal."

Business Context

Traditional supply chains were linear and manufacturing was vertically integrated, hence a traditional supply chain planning approach worked for decades before the world became "flat." But over the years outsourcing and off-shoring has resulted in complex sourcing and manufacturing operations as companies became more global. Increased competition resulted in exceptional changes as retailers became manufacturers, emerging country suppliers became brand owners and, the resulting supply chains were longer, more complex and with increased latency. Then, there's the "long tail" phenomenon where meaningful supply chain improvement is no longer possible from a key trading partner focus, due to the growing population of supply chain participants. As a result, complexity has risen in multiples and companies increasingly compete on the strength of their extended demand-supply network.

Since the 1980's Sales and Operations Planning (S&OP) processes have been implemented in large corporations to connect their supply and demand organizations and to unite and balance their plans. Many companies tried to use Excel as their S&OP tool, and endured the painstaking manual aggregation of a myriad of spreadsheets in preparation for quarterly and annual reviews. Over the past decade, technology has become commercially available to dramatically improve the S&OP process and provide a single view of rationalized, harmonized planning data to power monthly cross-functional and multi-enterprise business reviews.

Value Associated With Integrated Business Planning

S&OP is a journey. Typically it begins with an improved demand signal to provide adequate reaction time for shifting sales opportunities. The next stage connects and aligns demand, supply and capacity plans for improved service levels as well as capital and production resource utilization. The last stage extends the process to include key customers and suppliers and provides executive "what if" scenario modeling for operational decision-making. With every step in the journey, businesses gain more control and agility.

Fully-realized S&OP is being referred to by many as Integrated Business Planning. IBP takes S&OP to another level, by integrating financial systems data into the equation. This brings together strategic and operational planning for a single view from plan to performance to profit.

Several industry analysts press the need for S&OP-based IBP. For instance, Aberdeen Group[1] research shows that best-in-class companies optimizing S&OP experience 2-6 times' better margin than companies that did not employ S&OP.

[1] Aberdeen Group, 2009 - Sales and Operations Planning: Integrate with Finance and Improve Revenue

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Seven Success Strategies for Integrated Business Planning

1. Engage sales and marketing
2. Link the financial plan to the operational plan
3. Ensure a cross-functional multi-enterprise collaborative process
4. Continuously align strategy with operations
5. Ensure process agility and flexibility through technology
6. Capture metrics for performance management as part of the process
7. Optimized demand-supply-finance balancing

1. Engaging sales and marketing

The fundamental point that existing IBP processes fail to notice is that sales begins from an opportunity and not an order, as sales has traditionally focused primarily on opportunity conversion rather than build forecast. Traditional supply chain driven processes make the assumption that sales understands the build forecast best and thus can feed all the data that supply chain needs into their advanced planning system. This approach does not usually work.

The progression of supply chain models of build-to-stock, configure-to-order and engineer-to-order reveals that they are increasingly more opportunity focused. The question becomes - why not use Customer Relationship Management (CRM) systems? Unfortunately, CRM systems are unsuitable as they do not have forecasting capabilities. CRM systems are transactional systems that manage accounts and take sales through various stages of the lifecycle. What is needed is an IBP solution that understands opportunities and the conversion process to build forecasts.

For successful Integrated Business Planning, engagement from sales teams is critical. It needs to be a simple push driven process to establish successful engagement.

Consider the case of a $ 3B semiconductor manufacturer that faced the following challenges:

- sales and marketing was not engaged with S&OP
- existing tools--CRM, Enterprise Resource Planning (ERP) and Demand Planning (DP)\-- fell short
- opportunity pipeline was not integrated
- long planning cycle times

The company adopted the Steelwedge Enterprise Enabled Excel solution and was able to integrate the opportunity pipeline with the sales forecast and build plan. This resulted in an improvement of forecast accuracy by 30%.

There is another example of large semiconductor equipment manufacturer which has an engineer-to-order focus. In this case Steelwedge is capturing the opportunity at the transactional level and bringing it into the IBP process. When there are a limited number of opportunities with a $1M+ average price tag, it is important to get visibility at the opportunity level.

Several research studies have pointed out the rampant use of spreadsheets for planning, an Aberdeen study pegged it at 85% for S&OP processes. In such a scenario, it is important to adopt a solution that can marry the best features of Excel as well as the advantages of enterprise software architecture. Steelwedge is the solution that provides this capability across various departments such as sales, marketing, supply chain, etc. to carry out their activities in an offline mode and then sync up their plans when they get online. For certain industries, like upstream oil producers for instance, this kind of offline update capability is invaluable given the remote location of the employees.

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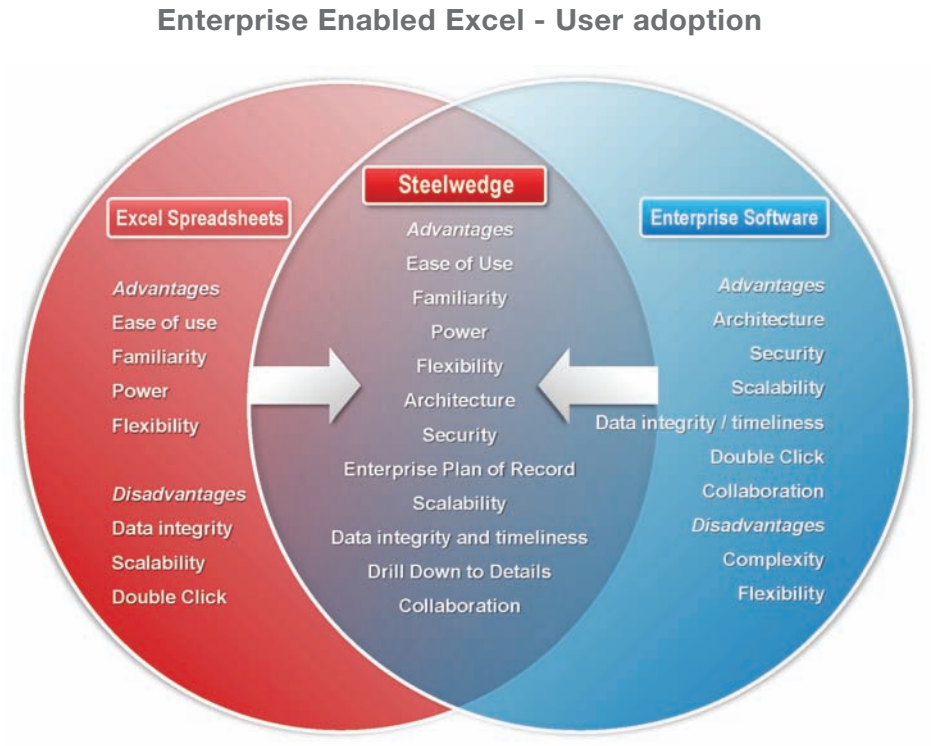


Figure 1. Advantages of an Enterprise Enabled Excel Approach

2. Linking the financial plan to the operational plan

The second key strategy for successful IBP is linking the financial plan to the operational plan. Financial integration with S&OP is often termed as IBP in the industry. It is our opinion that it is a narrow definition most often provided solely as a way to sell software. It is our perspective that financial considerations into S&OP should not be done as an afterthought or a separate step. Financial parameters should be present throughout the process and be ubiquitous.

Examples of this are:

- Average Selling Price (ASP) “cross reference attributes”: The Steelwedge solution manages ASP assumptions and cost assumptions at a much lower level than in Financial Planning Analysis (FPA) tools and has the ability to also manage them in a time phased way for example, ASP by region/SKU or even customer/SKU – stored and/or calculated at a “cross reference attribute.”)

- Statistical Bill of Materials (SBOM) – Attach rate revenue/pricing analysis: The Steelwedge solution can also roll up costing information based on the SBOM/mix where it is the only system that can anticipate the future planned mix of options – so this mix, as it changes in the future, drives the pricing of a platform or “model”.

- Multi Currency: Steelwedge integrates and leverages currency tables to also allow for fully integrated multi currency based management.

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3. Cross-functional and multi-enterprise collaboration

IBP is not only about north-to-south integration of financials to operations, but also about left-to-right integration of functional groups as well as trading partners. Examples of cross-functional groups are: sales, marketing, finance, supply chain, logistics, services, procurement, product management, etc.

Examples of the multi-enterprise trading partners are: customers, suppliers, 3rd party logistics providers, supply chain finance providers, etc. In fact the concept of IBP has applicability across a wide spectrum of industries and functional areas.

In the Consumer Packaged Goods (CPG) sector, Steelwedge supports the Collaborative Planning, Forecasting and Replenishment (CPFR) process. For the oil and gas industry, it ensures critical integration with trading partners. Essentially, Steelwedge delivers on the need for an IBP platform that can not only integrate with other transactional systems but can act as a planning layer.

One of the outputs of the standard Steelwedge solution is a sourcing template which identifies the net requirements for direct and indirect materials procurement for suppliers. This is communicated to suppliers through B2B platforms which then consolidate the commits from suppliers back to the Steelwedge system. The collaborative, cloud-based Steelwedge platform makes this easy to deploy.

4. Continuously align strategy with operations

Management teams (C-level Execs, General Managers, etc.) grapple with strategic issues like dealing with shifts in global markets, commodity shortages and the impact on pricing, natural disasters and mergers and acquisitions (M&A). Typically strategic consulting firms are employed to help the c-suite by providing advisory services. However these expensive initiatives are typically done in a vacuum that fails to leverage existing data and technology platforms.

A better approach to this is to look at an Integrated Business Planning process where the strategic plan is also integrated with the operational plan. It is important to go with an integrated business-planning platform that can act as a sandbox for performing scenario management.
As part of the executive S&OP process, in addition to operational scenarios, strategic scenarios should also be modeled. The impact of these scenarios on the S&OP plan should be identified.
The assumptions associated with these scenarios should be captured for future reference.
The solution should support the ability to create customized workflows that can address strategic goals too. The assumptions and business context associated with the scenarios can be captured and intelligent trade-offs can be made during the executive S&OP meeting.

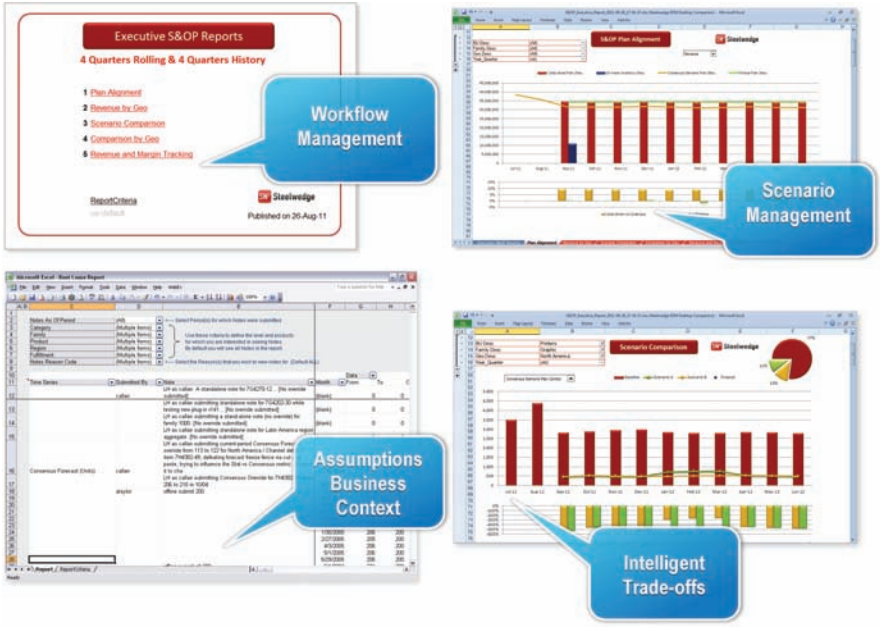


Figure 2. Scenario Management to Enable Strategic Plan to Operational Plan Alignment

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5. Ensure process agility and flexibility through technology

Traditional software implementation tries to decouple process change and technology deployment. We don't dispute the fact that process change is very important and pivotal to project success; however the artificial decoupling of process and technology is done not, as a best practice, but due to limitations of existing technology.

ERP and Supply Chain Management (SCM) solution providers have always lacked purpose built S&OP platforms as part of their legacy. They have patched together a group of disparate software solutions – demand planning, supply planning, BI, etc., for enabling the S&OP process. These solutions are akin to cement wherein once the software has been implemented it is extremely difficult to change the configuration. Also the time it takes to configure and implement the solutions is often measured in years rather than months.

Steelwedge recommends a different approach; one that allows companies to accelerate time to value by introducing process and technology in parallel. The Steelwedge approach provides the automation right from the start and avoids the delay in success caused by a "process first, then technology" approach. Steelwedge is easily configured, and reconfigured, to meet your evolving S&OP process requirements. Our change management experts drive S&OP process adoption for the first 3-4 months of design / delivery. This allows your team to enjoy the immediate benefits of technology-enabled S&OP process "wins." Our flexible platform and hybrid deployment approach provide you with the unique ability to introduce process AND technology in parallel.

Traditional Approach

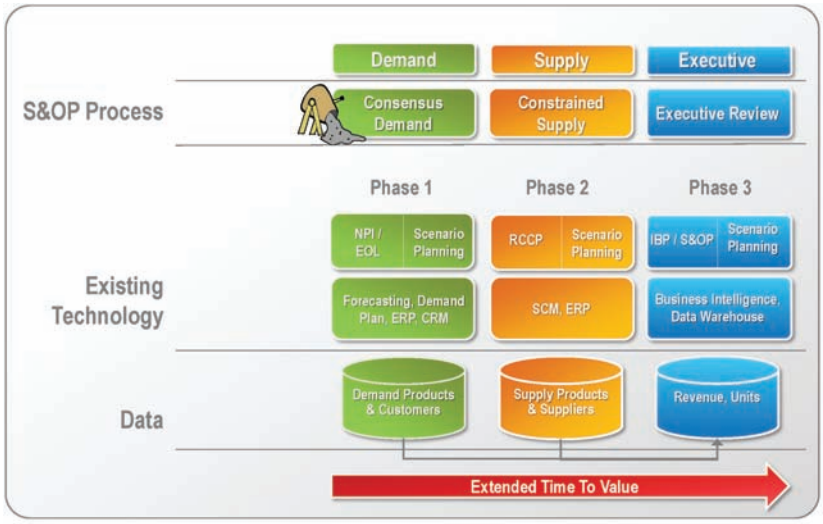


Figure 3. Traditional Approach of Implementing S&OP Technology

Steelwedge Approach

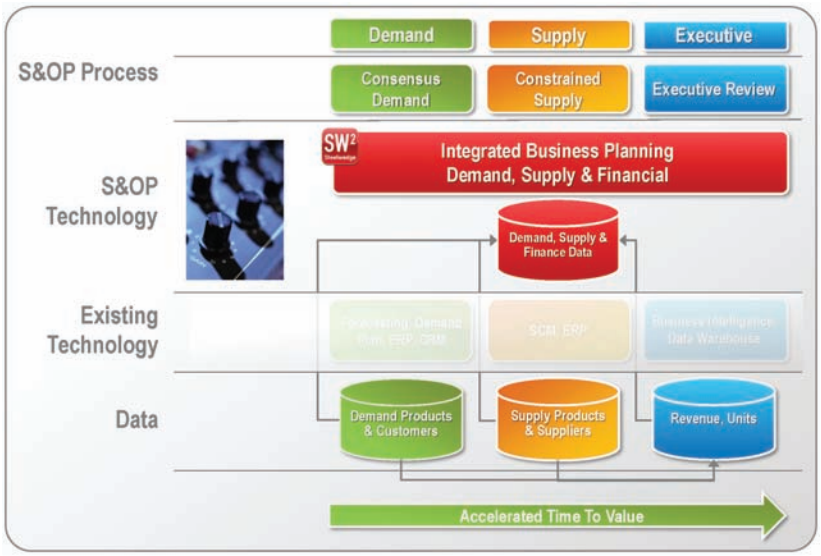


Figure 4. Steelwedge Approach of Implementing S&OP Technology

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6. Capture metrics for performance management as part of the process

Steelwedge has conquered another challenge with existing solutions-- decoupling the workflow with reporting. This is due to the proliferation of business intelligence solutions that are great for reporting but not good for enforcing processes.

Given that the key sensor for measuring process efficiency is the metric - it needs to be captured at the point of the process or close to the process. There should be an ability to support a standard library of metrics as well as provide the flexibility to create new metrics. And the solution should be end-user driven rather than IT driven. End users should be able to create, modify and manage metrics.

Consider the high-tech company that has implemented an integrated dashboard with a combination of financial and operational metrics, and optimized demand-supply-finance balancing. The real-time or near real-time nature of these reports is compelling to the end-user.

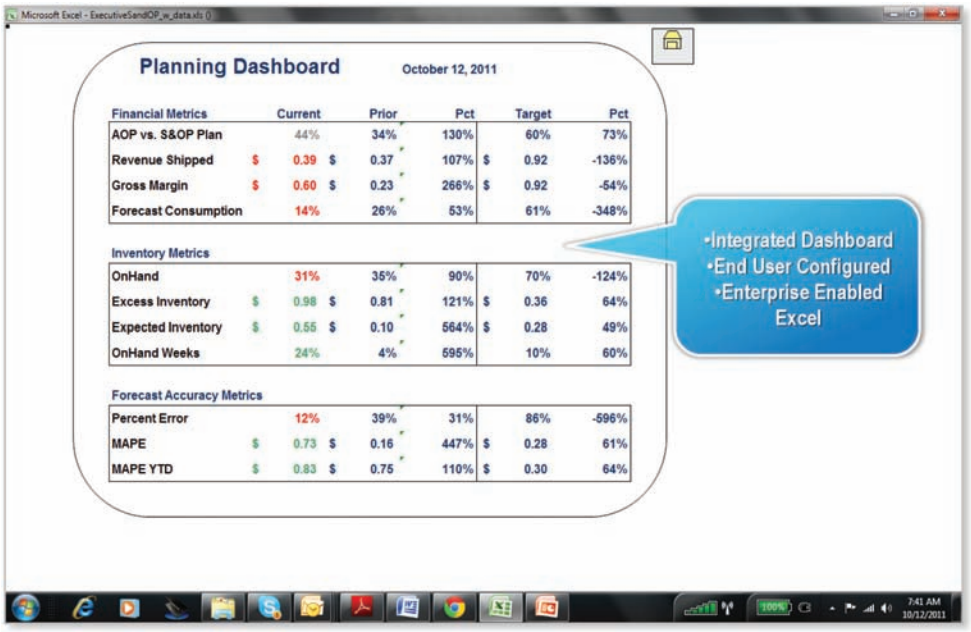


Figure 5. Example Integrated Dashboard

7. Optimized Demand-Supply-Finance balancing

Companies should adopt a crawl-walk-run approach towards optimization. Proceeding with an optimization project without setting up the basic process and workflows will inevitably result in failure. In addition, the evolution of supply chains into demand-supply networks results in reduced impact of optimization-based techniques. The solution should support a variety of approaches such as user interface driven heuristic-based planning and black box global optimization through solvers. Instead of focusing on a very complex integration architecture that spans multiple advanced planning and scheduling solutions, companies should look for an integrated platform with an ability to perform tradeoffs across supply,-demand and finance. There should be an ability to respond to changes in market events and take immediate action.

Here is an example of a workflow implemented at a large discrete manufacturer.

- Step 1 - Critical resources are modeled in the system and rough cut capacity planning (RCCP) is performed. This process results in identification of resource bottlenecks which in turn results in constrained supply
- Step 2 - Users can immediately identify the revenue loss due to lack of fulfillment of demand
- Step 3 - Users can also identify the impact to profit margin due to this revenue loss
- Step 4 - Users can run a solver again to resolve the resource bottlenecks - namely allocate the supply to demand based on priority or costs

The important differentiation of this workflow is that this happens as part of the integrated platform and not in some specialized APS solution that is extremely tough to implement and integrate with.

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IBP technology framework

The Steelwedge Integrated Business Planning platform is a single, purpose-built platform powering the entire S&OP journey. The platform supports:

- Compass Express, a pre-configured "blueprint" for full IBP based on a decade of best practice domain expertise.
- Application components:
  - S&OP Sales
  - S&OP Operations,
  - S&OP Collaboration and
  - Executive S&OP.

Steelwedge is also leading the next stage of evolution in IBP with the development of two important IBP components - S&OP Finance that integrates the financial plan with the operational plan and Business Strategy Scenarios that integrates the strategic plan with the operational plan.

Integrated Business Planning Solution

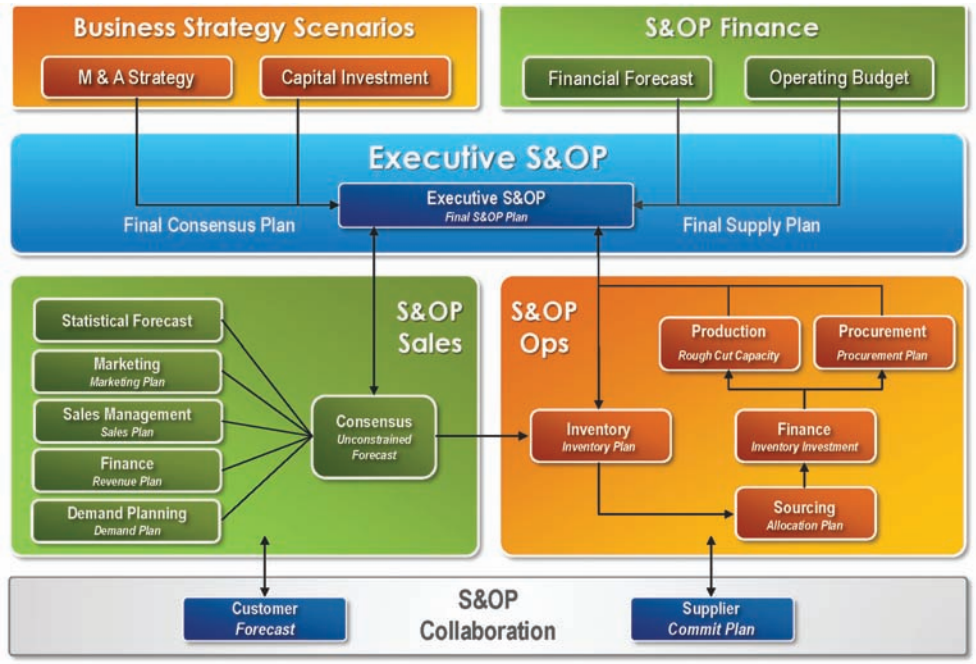


Figure 6. Steelwedge Integrated Business Planning Platform

Key evaluation criterion for IBP solutions

If you are looking at creating an RFI or an RFP for IBP solutions, please consider the following:

- Does the solution perform holistic consideration of supply, demand and finance?
- Does the solution support master data management and provide integration architecture?
- Does the solution provide the ability to create flexible as well as sustainable business processes?
- Does the solution support quick time to deployment?
- Does the solution support multi-enterprise collaboration?
- Does the solution provide embedded reporting and analytics?
- Does the solution provide clear visibility to Ownership, Accountability and Traceability?
- Is the solution cloud-based, providing faster implementation, reduced up-front costs and driving better ability to collaborate?

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IBP Business Benefits

Steelwedge has benchmarked the value that companies have gained and identified through advanced S&OP and IBP. Including:

- Average $5M - $10M savings per $ 1B in revenue
- 5% lift in revenue and margins
- 10-20% reduction in inventory
- 10-30% improvement in customer service
- 50-70% reduction in planning cycle time

In addition, Steelwedge has created a value calculator to benchmark S&OP ROI potential. If you are interested in learning more about how Steelwedge can power your S&OP journey please contact us.



Figure 7. Key Takeaways

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Steelwedge integrated sales, operations and finance planning solutions provide the "shock absorbers" to recognize, recalibrate and respond in a volatile environment. Business agility starts with Steelwedge for a clear line of sight from plan to performance to profit. For additional information, please email us: **info@steelwedge.com**.

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