



Align Strategy and Operations with Collaborative Integrated Business Planning

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Executive Summary:

Economic, political, and environmental challenges combined with the growing complexity of global operations have made S&OP and the Integrated Business Planning (IBP) a top corporate priority. Indeed, the potential is tremendous in the most volatile business climates - this process, which aligns merchandising, sales, planning, R&D, 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, where businesses enable collaborative inputs from customers and suppliers in their planning process. According to leading research from Gartner, the majority of large global retailers & 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, and make more timely, strategic decisions. It is this journey to true Integrated Business Planning, which allows strategic, bottom-line oriented "what if" scenario modeling, and must be managed by a strategic process which can move at the pace of today's global business environment. In this whitepaper, we take a look at how innovative Integrated Business Planning (IBP) can help drive the right process and the best business value in an environment where volatility is the "new normal."

So, at what point did S&OP become IBP? S&OP was failing to get the attention of the executive, as it does not resonate with business leaders while IBP does. IBP resolves the issues that companies have around integrating and organizing people within their businesses – the objective is to get everybody driving to the same plan, as quickly as possible. The purpose of an effective S&OP process has always been to achieve alignment for the supply chain to sales, planning, procurement, operations, and finance while IBP aligns sales, merchandising, marketing, procurement, R&D, operations, supply chain, finance, planning, HR, and IT.

Integrated Business Planning sits at the heart of many organizations as the management process that runs the entire business. The real power of Integrated Business Planning is in enabling effective decision making to control the future direction of the company. It makes the critical link between strategic plans and the current reality, acting as an early warning system for performance gaps. Integrated Business Planning gives senior management an accurate holistic view of the business over a 24-to-36-month horizon. Unforeseen events can be detected early and addressed with speed and agility, through planned actions rather than firefighting – being proactive rather than re-active.

S&OP has done much to enhance the efficiency and profitability of supply chains in virtually every industry, but this process needs to be not just a supply chain and planning process, but rather an end-to-end business view. Integrated Business Planning helps finance, R&D, merchandisers, planners, marketers, the supply chain, and strategic partners to take the next step forward. Rather than enhancing supply chain processes in isolation, IBP seeks to involve a wide range of stakeholders in every operational decision, so that the supply chain can truly drive the success of the entire business.

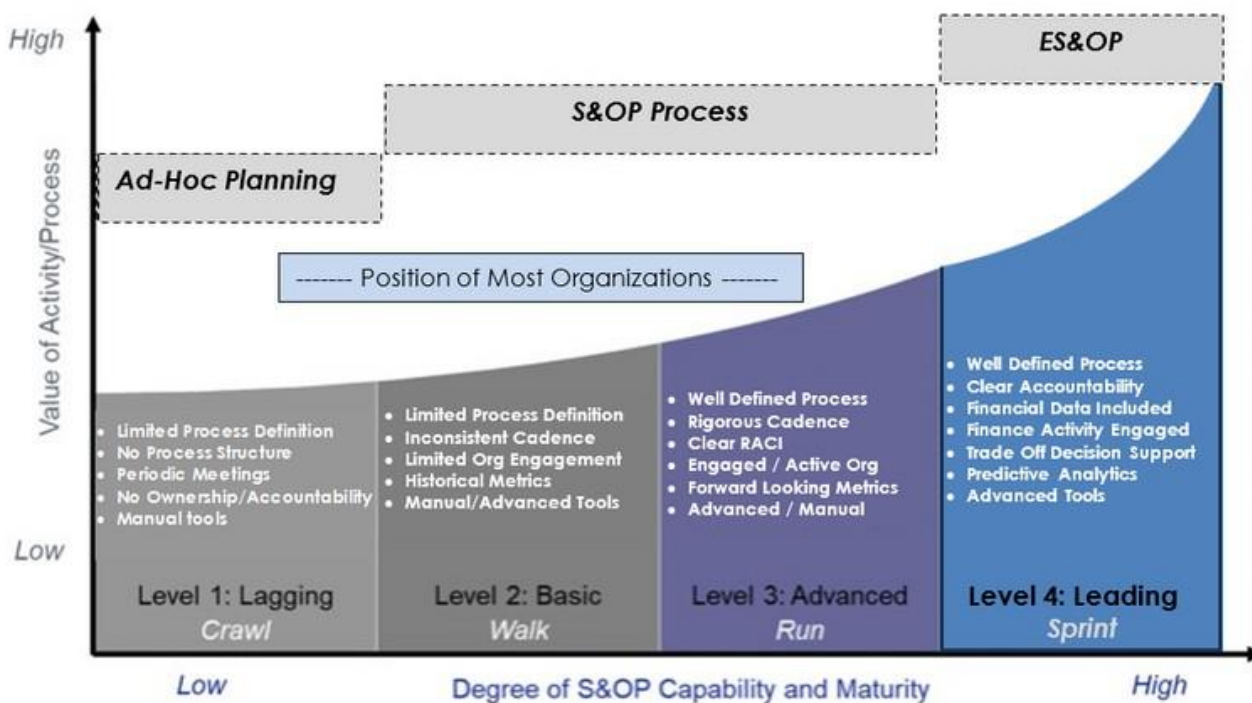
In the simplest of terms, the Integrated Business Process reconciles and harmonizes strategy and execution by aligning strategic plans into operation plans and bringing the practical aspects of execution (constraints, capacity availability, realistic throughput rates that have been achieved, detailed unit costing, and profitability) into the creation of strategic plans. The outcome of IBP is a true business plan, rather than a demand plan, supply plan, production plan, or a financial budget. Through IBP, enterprises gain a single holistic plan that unifies the business, seamlessly connecting corporate performance management, financial planning processes, and operational planning systems. This holistic business plan increases business alignment through the sharing of performance strategies and helps quantify business risk, enabling enterprises to rapidly adapt to meet challenges.

From S&OP to Integrated Business Planning

Every organization has a number of processes in place, but there is also likely to be a certain amount of inertia because people are used to doing things certain ways.

At its core, the Integrated Business Process takes rigid, independent processes and transforms them into flexible, choreographed business services that work together to create substantial business value. This transformation can help an organization to adapt to an ever faster changing business climate and global economic challenge. Rarely, companies have an entire market all to themselves. Indeed, most enterprises are facing ever-increasing competition.

The basic operational value proposition of IBP is the ability to process more with less effort and with higher quality. As a result, IBP has become a cornerstone discipline for companies that want to grow revenues quickly while controlling resource costs as it is repetitive and meant to be a functional monthly meeting with representation from all stakeholders.



Definition of Integrated Business Planning:

- A process lead by senior management that evaluates and revises time-phased projections for demand, supply, product, and portfolio changes, strategic projects, and the resulting financial plans. This is done on a monthly basis, typically over a 24 to 36 month rolling planning horizon.
- It is a decision-making process that realigns the tactical plans for all business functions in all geographies and operating units to support the companies' goals and objectives.

- A primary objective of Integrated Business Planning is to reach a consensus on a single operating plan, to which executives of the management team hold themselves accountable and allocate the critical resources of people, inventory, equipment, materials and time and funding to most effectively satisfies customers profitably.
- To ensure that the process is integrated, marketing provides insights and by the nature of Marketing that is planning two years out, helps to give a longer-term view to the Integrated Business Planning.
- Input on competitive intelligence is managed proactively and is a critical input during the IBP Process.

Integrated Management Review Process



What are the Key Factors in Establishing a Successful Integrated Business Planning and S&OP Process?

- Ownership: Ultimately everyone needs to be committed to IBP, but commitment begins at the top.
- Business Horizon: Successful IBP requires the business to look out over 24 to 36 months and is critical that the horizon is rolling, and the forward view is continually updated to compare performance against strategy.
- Focus: The purpose of the IBP process is not to manage to the short term but to focus beyond and review the financial plan for gaps between the bottoms-up and top-down plan while also reacting to current issues with a long-term view.
- Managing Behaviors: Transitioning from S&OP to IBP challenges the traditional thinking of operating in silos to integrating all areas. This requires a behavior change to execute to the consensus plan and communicate that plan to all stakeholders in a timely manner.
- Keys to Success: Effective IBP requires the interaction of all stakeholders supported by defined processes and roles and responsibilities. Behavior change comes from involving the right people, at the right time, in the right process, to achieve the right outcome.

IBP Drives Operational Effectiveness & Agility

Operational effectiveness and agility – the ability to respond quickly to changing business requirements and market trends can be a strategic competitive advantage for your organization in supporting intelligent business operations. No matter what industry you operate in, you recognize that operational excellence and consistent execution of day-to-day business operations, significantly improves customer satisfaction that leads to long-term stability and business success.

Business process and value-stream orientation has proved to reduce interdepartmental conflicts, improve cross-functional collaboration, and significantly increase customer focus. The fast pace of modern business, a volatile competitive landscape, the explosion of information – both structured and unstructured – from multiple channels, and the demands from the consumer have a huge impact on business operations.

Departments can no longer work in isolation. Organizations have to move away from the splintered and siloed views of business to “big-process-thinking,” which Forrester defines as follows: “Big process shifts the organization’s focus from isolated IBP and process improvement projects to a sustainable, enterprise-wide business process transformation program supported by top executives.” Big processes are complete business scenarios focused on delivering value to customers. From an organizational perspective, people from several departments typically collaborate to achieve common goals.

These processes have a great impact on customer satisfaction and can be decisive in winning customer loyalty. They are typically high-value processes and have to be managed effectively to keep business operations running efficiently and at top performance. Key processes are closely linked to Big Data and acquire Big Data characteristics, such as high volume, high velocity, and variety of data and interaction (structured and unstructured).

Integrated Business Planning Process



Nine Success Strategies for Integrated Business Planning:

1. Engaging sales and marketing:

The fundamental point that existing IBP processes fail to notice is that sales begin from a customer opportunity, as sales has traditionally focused primarily on opportunity conversion rather than build forecast. Traditional supply chain driven processes make the assumption that sales understand 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 process that understands opportunities and the conversion to build forecasts. For successful Integrated Business Planning, engagement from merchandising and sales teams is critical. It needs to be a simple push driven process to establish successful engagement.

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 IBP should not be done as an afterthought or a separate step. Financial parameters should be present throughout the process and be ubiquitous.

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 R&D, merchandising, sales, finance, sourcing & production, logistics, operations, procurement, product management, etc.

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

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). An Integrated Business Planning process, where the strategic plan is also integrated with the operational plan can act as a sandbox for performing strategic scenario management can be modeled. The assumptions associated with these scenarios should be captured for future reference and support the ability to create customized workflows that can address strategic goals and financial objectives.



5. Ensure process agility and flexibility through technology:

Traditional software implementation tries to decouple process and change with 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 purposeful 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. The correct approach is to outline and implement the IBP process and strategy and if systems are needed to support the business, they can then be matched to the business process. This also allows an organization to work through change management issues prior to implementing any software and preventing costly changes as the process was not vetted by the stakeholders and tested.

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

Decoupling the proliferation of business intelligence reporting, driven by silos that are not in sync with the needs of the IBP process results in the lack of adherence or enforcement to the IBP process. Given that the key sensor for measuring process efficiency is the metric - it needs to be captured at the point or close to of the process. There should be an ability to support a standard library of metrics as well as provide the flexibility to create new metrics. The solution should be end-user driven rather than IT driven. End users should be able to create, modify and manage metrics. An integrated dashboard with a combination of financial and operational metrics, and optimized demand-supply-finance reporting reflects best in class IBP processes. The real-time/near real-time nature of these reports is compelling to the end-user.

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 a reduced impact of optimization-based techniques. There should be an ability to respond to changes in market events and take immediate action.

8. Eliminate Information Silos for Greater Efficiency:

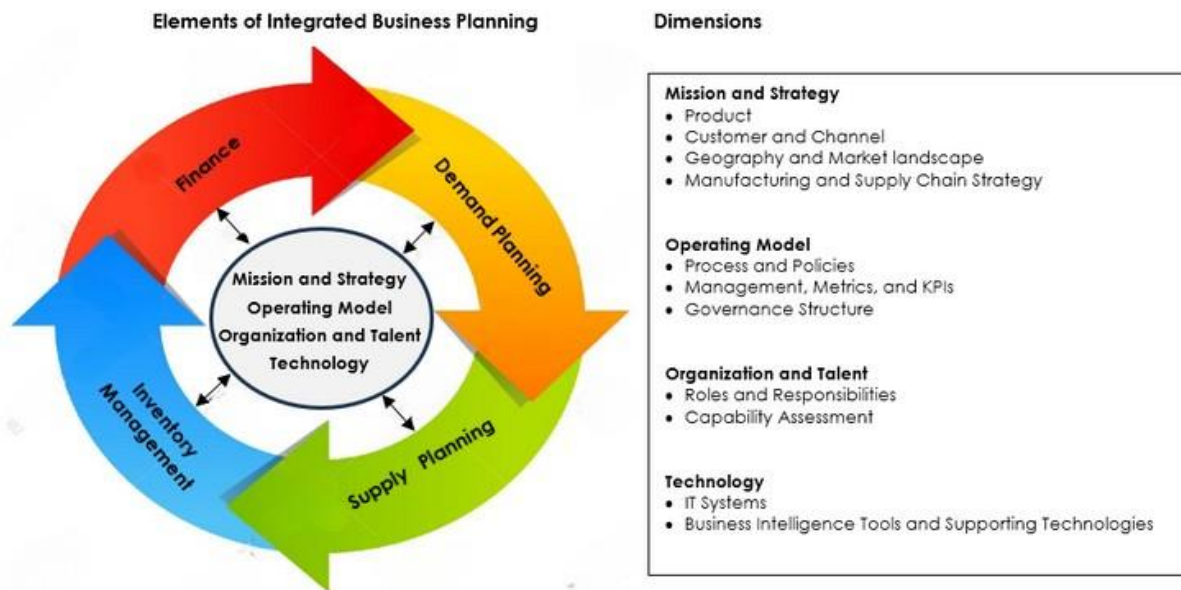
Achieve the full benefits of sales and operations planning (S&OP) by embracing integrated business planning (IBP). The demand workflow process provides tools needed to eliminate organizational silos, involving more colleagues and partners in supply chain decisions, and make faster progress on your journey to supply chain excellence. By focusing on enhancing collaboration throughout your design to delivery supply chain, you can get more value out of every stage of your IBP processes.



9. Making Informed Decisions Faster:

Speed and agility are very important factors in the success of any business. The business objective is often to increase process speed or reduce cycle time; to increase quality; or to reduce costs, such as labor, materials, scrap, or capital costs. In practice, a management decision to invest in business process modeling is often motivated by the need to document requirements for an information technology project. A properly implemented process routinely reviews customer demand and supply chain resources

Like every process, the Integrated Business Process has distinct steps. The following are the phases that are essential in the Integrated Business Planning (IBP) process:



Integrated Planning Process Phases:

Financial Planning Phase:

Financial planning is the process of building the demand plan at the local and global company level. You'll seek to understand, or sense, how your supply chain will need to respond to demand for your products and services. Sensing demand is a key step in avoiding both inventory shortages and overstocked items. Once you've developed a demand plan that is driven by the assortment plan by channel, you'll want to be sure that the plan is being fulfilled at least at the departmental level of your organization. Your demand planners or analysts will then review your forecast against customer service levels and inventory levels at the beginning of each month. This will help your decision-makers sense challenges from more angles so that you can update your forecast accordingly.

Optimization Phase:

The next step is the process of building a forward-looking aggregated and optimized demand and supply plan at the local and global level. In this step, you'll optimize demand with supply, identifying gaps and analyzing alternatives for addressing mismatches—before they affect the customer. You'll focus on building a strategic demand plan at the family or sub-family level of your product line, by channel aiming for at least 18-24 months of future visibility for an optimized demand and supply plan.

Execution Phase:

During execution, you'll build strong alignment between your local, regional, and global teams, including the customer and suppliers. Your demand plans and supply forecasts can both be improved through active collaboration with your key stakeholders—across your enterprise and beyond. This collaboration should include the merchandising, and sales organization, the supply chain, trading partners and suppliers, and most importantly the customer.

Technology is the collaboration enabler. Many leading firms are already using social media to enhance collaboration—and the trend will only ramp up in the future. In the execution phase, you'll establish departmental coordination as well as ongoing collaboration outside the four walls of your company. It is during the execution process that brings together all executives and stakeholders to approve the optimized demand, supply, and financial plans. Don't forget: IBP requires buy-in across the organization, as well as the extended supply chain. At this point, there's a single view of the truth. Everyone in the extended supply chain is operating with the same numbers and the same assumptions.

Don't underestimate the challenge of integration. While it's true that automated workflow and other technologies can help, integration requires process discipline. At the end of the execution step, you'll end up with a single, optimized plan—and your financial plans will factor into all your supply chain management decisions.



Summary:

The agile and flexible organization has the ability to meet the needs of the customer and be the winner at the end of the day.

Integrated Business Planning positions your company to take advantage of new opportunities in ways that simply aren't possible currently. Whether you choose to optimize current operational processes to get started with IBP, you will need to begin by evaluating your company's needs. Any successful process improvement initiative must start with and be driven by business value understanding the business goals and strategies that drive the process improvement initiative. Strategy must be clearly defined to drive the process!

The objective of Integrated Business Planning (with what-if analysis capabilities) is to improve business decision-making as part of the IBP process. Innovative companies, which have deployed IBP, have realized the following benefits:

- Up to 1% of revenue in additional operating profits.
- Working capital reductions of 15-25%.
- Significant risk reduction.
- IBP surfaces issues, while considering all business constraints, and helps manager's focus on the business opportunities of greatest significance and a timely issue resolution process.
- Operational processes can make better use of technology and the entire enterprise would become more responsive, helping to meet goals and profit objectives.
- Initiates operational change from a "Reactive to Proactive" business process.

Companies that implement Integrated Business Planning with the S&OP Process are more efficient, more effective, and make more money than those that don't.

The key to success in implementing Integrated Business Planning takeaways:

- People are fundamental.
- Collaboration drives behavioral change. Create internal experts within the company.
- Develop multi-disciplined teams.
- Consistent processes with clear responsibilities and accountabilities.
- Deliver outstanding sustainable results through the integration of business processes and functions, and executive lead & managed IBP.
- Formal integration with financial planning analysis Product & portfolio visibility review.
- Risk management-visibility and management of risks Planning, Planning, Planning – a critical success factor.
- Ability to support capture of strategic plans/initiatives.
- Improved trust and participation across the entire management team and supply chain.
- Monetized IBP – looking for margin improvement and ROI in the business.





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