

DEVELOP INTO A POWERFUL DEMAND PLANNER

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ISM Mastery Model®

Core Competency: **Sales and Operations Planning**

Becoming an expert requires a knowledge of forecasting, as well as the ability to collaborate, communicate and be resilient.

Demand planning is an often-quoted but much-misunderstood term. Many incorrectly equate forecasting with demand planning. While it's perhaps the most critical part of the demand-planning process, forecasting is only the first of three steps.

Step 2 is adjusting the unconstrained forecast to create a feasible forecast based on your organization's available resources. And Step 3 is regulating demand in the short term (for example, by allocating stock or adding or removing promotions) to balance available supply with demand.

ESSENTIAL SKILLS

How do you become an accomplished demand planner? As forecasting is essential to the demand-planning process, you must be able to use analytics. In fact, the most common skill specified in demand-planning positions is statistical knowledge — the ability to work with data sets and understand statistics from basic moving averages to exponential smoothing and advanced algorithms. But the second skill that recruiters cite is the ability to communicate and work cross-functionally.

This dichotomy of skills can present a challenge: Often, people who are brilliant at math are lacking in people skills. Likewise, people who are great communicators and can influence across an organization often have a limited aptitude

for statistics and data. Demand planners who possess or can develop both these skills are highly sought after.

Demand planning requires other capabilities:

- Ability to translate data into information and work at different levels of granularity, depending on the audience
- Self-confidence to work across functional silos and present effectively at all levels of an organization
- Ability to work effectively in a team, both as part of a demand-planning team and in a wider sales and operations planning (S&OP) process.

THE DEMAND-PLANNING PROCESS

Demand planners often rely on software tools for the analytical aspect of their jobs. Choosing the appropriate tool depends on your capabilities and your organization's needs. Organizations with more complex needs should consider systems with more comprehensive planning solutions. Businesses without budgets still have options: Microsoft Excel or Access can be used as forecasting tools. In Excel, for example, the Analysis ToolPak add-in program enables basic forecasting functionality like moving averages and exponential smoothing.

Tools alone are not enough, however. You also need to develop a collaborative demand-planning process, in which you seek data and information from other departments. Consider what parts of your product range are best forecast using statistics and what are best forecast by colleagues in other departments.

A demand-planning process might look like this:

- 1) Source sales history data.
- 2) Cleanse the data for unusual events that will not reoccur.
- 3) Generate a statistical forecast.
- 4) Share this forecast with the sales and marketing departments, which have knowledge of their customers, markets and market indicators.
- 5) Ask for input and improvements and record them.
- 6) Share the resulting consensus forecast across the organization as part of a wider S&OP process. You may have to constrain the consensus forecast if necessary. (Forecasts are unconstrained, showing expected sales volume without considering supply capacity, or constrained, in which supply constraints are taken into consideration.)

DEMAND PLANNING IS ONE OF THE MOST CHALLENGING ACTIVITIES IN AN ORGANIZATION.

ACCOUNTABILITY

A critical element of your role as a demand planner is measuring your forecasting performance. There are three main areas to measure:

Forecast error (or accuracy). How close are your forecasts to actual demand?

Forecast bias. Are your forecasts persistently above or below the actual demand?

Value-add of overall forecasting process. Was an early version of the forecast — one created before adjustments from management — better than the final consensus forecast?

Measurement alone is not enough, however. To improve your process, you need action. If one of your account managers is persistently forecasting too low or too high — for example, you have forecast bias — training may be appropriate. If the statistical forecast is normally better than the final consensus forecast, then you'll need to meet with senior management to discuss the value added by their interventions, and adjust the process to give more weight to the statistical forecast.

ACCEPTING THE ROLE

Demand planning is one of the most challenging activities in an organization.

It's common for a management team to override the statistical forecast, then discover that the original forecast was better. If your business culture drives people to make the forecast numbers match the target numbers in the budget, your job will be difficult.

Forecasting is only part, albeit a critical part, of being a demand planning subject matter expert. In addition to analytical and statistical abilities, you must possess other abilities that include collaboration, communication and cross-functional skills.

You also need to be resilient. Too often, the demand planner gets the blame when forecasts are wrong but little credit when they are right. As American economist Edgar Fiedler wrote: "He who lives by the crystal ball soon learns to eat ground glass." ISM

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