Calming Near-Term Planning Chaos With a Demand Control Process

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Demand Control is a process designed to take chaos out of near-term planning and promote actions that enable companies to profitably meet abnormal demand. The results are better performance and improved working environments.

Dealing with near-term abnormal demand, whether on the up- or down-side, is a recurring issue in most businesses and one that can have adverse ramifications throughout the enterprise.

"Near-term abnormal demand events often become crises because everybody gets pulled in, from the president all the way down to the guy on the shipping dock," says Colleen Crum, a recently retired principal at Oliver Wight. "When this happens week after week, the management and executive teams become too distracted to focus on the medium- and long-term planning that's essential to the company's health."

"In the absence of a formal process to manage these situations, chaos reigns," adds Todd Ferguson, a principal at Oliver Wight. "We have seen it happen over and over again."

This chaos typically manifests as constant fire drills that drain the time of both staff and management. While companies usually manage to control these "fires," the means they use are highly inefficient, straining resources and ultimately resulting in a lack of timely communication to end customers, Ferguson says.

With no clear process in place, people tend to point fingers and step on toes, adds Timm Reiher, another Oliver Wight principal. "Sales people may start calling the company's supply chain or procurement people—or even the supplier directly—to try and secure product for their customers. Of course, it is natural for them to want to take care of their customers, but this is the kind of thing that frustrates supply chain and purchasing people. Just as sales people have strategies with their customers, the supply side has strategies with suppliers and they need to control communications."

The response is no less frantic when demand is lower than anticipated, says Reiher. "When companies' sales are under-performing, particularly near the end of a quarter and especially when the company is publicly traded, there is tremendous pressure to get those numbers up," he says.

To bring order to this chaos, Oliver Wight developed a process known as Demand Control. Demand Control is a formal process of communication and decision-making to keep demand and supply synchronized when demand materializes differently than planned within near-term time fences.

Near-term can range from a few weeks

to four months, depending on individual operations, says Ferguson. Companies engaged in best practice demand management create plans that look out at least 24 months, he says, so the time period covered by Demand Control is relatively small. Typically, it coincides with the "Firm Zone," the time fence within which a company has firm commitments to deliver according to plan. Those commitments could mean that raw materials have been purchased, that manufacturing already has occurred or is in progress, and that shipments are scheduled—all factors that make it very expensive to make changes.

"A documented Demand Control process allows companies to react in a thoughtful and profitable manner when things start changing within the Firm Zone," says Ferguson.

Letting Sales Make the Call

Demand Control, which works in tandem with Demand Management, addresses both types of demand/supply imbalance: demand that is higher than planned, which can mean insufficient supply to fill all orders; and demand that is lower than planned, which can mean revenue shortfalls and excess inventory.

In either case, having a formal process takes the emotion out and facilitates decision making, says Crum. "Part of implementing Demand Control includes the creation of decision trees that details who should make the call in different situations and what priorities or rules should be followed to allocate products," she says. "It also establishes a procedure to determine if there is any way to say 'yes' to unanticipated orders."

One of the most important aspects of Demand Control is that these decision trees often lead to a sales manager. "When there is no Demand Control process in place or when decision-making boundaries are not well defined, the sales and marketing organizations do not have a chair at the table for making allocation decisions," notes David Holmes, an Oliver Wight principal. "A best practice for Demand Control is that allocation decisions always are made by sales leaders."

At companies where this is not the policy, allocation decisions typically fall to supply managers, who usually make decisions based on a perception of fairness, says Reiher. "Orders that come in at the last minute or from companies that never provide a good forecast are given a lower priority than orders that come in early and from companies that seldom make last-minute changes," he says.

That sounds good and it seems fair, but it also could be incompatible with the company's strategy, Reiher says. "That abnormal demand may be coming from a new and potentially strategic customer, who has a large contract hanging in the balance, for example. While it may not seem fair to put them first, that may be the right decision for the business."

"That's why it is so important to involve sales," says Reiher. "They are the people with the best customer intelligence."

Additionally, the involvement of sales in Demand Control sometimes can spur an improvement in margins, says Crum. She cites a customer of Oliver Wight that wanted to establish a rational way to prioritize customers when supplies were short, as part of its Demand Control process. After internal discussions, the company decided to give first priority to customers generating the most profit. "An interesting off-shoot was that this made the sales people become more focused on profit as well as volume, and margins improved," she says.

The Demand Controller Role

To ensure that all of these nuances are understood and that process steps are followed, many companies appoint a Demand Controller. This person is responsible for monitoring orders versus the near-term plan and engaging the appropriate decision makers when demand is more or less than planned. The Demand Controller also helps facilitate cooperation between sales, supply chain, production and sometimes logistics, to help them work together as a group.

The person selected for this role can come from any of those disciplines, says Crum. "Often there is an individual who is highly regarded both by sales and supply chain/production people, so that person is appointed. It may be someone from either of these camps or someone in demand planning or customer service. It doesn't matter where that person sits, as long as everyone is onboard with the defined process, roles and accountability."

Over time, Demand Control helps improve the demand plan by capturing information and insights. Ferguson offers an example, drawn from his experience, of a new customer placing a near-term order that was not part of the forecast. "The Demand Controller documented this event and made sure that the new customer's business was captured as an assumption going forward in the longer term demand plan," he says.

In another situation, a client's Demand Controller noticed that orders were very light compared to expectations. Further investigation showed that a planned promotion had shifted to the following month, so what might have been an assumption that these orders were not materializing was understood to be a timing issue, Ferguson says.

Deviations not only get smaller over time with Demand Control, but companies also get a clearer understanding of where the volatility exists in their business, says Holmes. "There will be situations that crop up repeatedly that a business can't control—that's a guarantee," he says. "Demand Control helps companies get on top of those so they can be as prepared as possible. This means the business can go from being 100 percent reactive to being extremely proactive, which can have a phenomenal impact on results."

Ways to measure those results also are incorporated in Demand Control. One key performance measurement is the number of changes that occur within the Firm Zone, and why. "Root cause analysis is performed to identify changes that are needed to improve responsiveness and better execute the demand and supply plans," says Holmes.

A quick dashboard measure is to tag near-term abnormal demand orders and publish these as a percentage of all orders that came in as planned. "The goal is to drive that number down," says Reiher.

Benefits of Demand Control

Good morale and a better team approach within the business are other important benefits of Demand Control, says Holmes, noting that having a consistent process to follow minimizes finger pointing. "And once a good process is approved and working, top management can stay out of the way a majority of the time," he says. "That frees up a significant amount of their effort, concentration and time to work on planning the business in the medium to long term."

Increased sales revenue is another benefit. When sales begin coming in below plan, an early warning can mobilize the sales representatives and account managers into action, Holmes says. "The sales organization comes to rely on the Demand Controller to provide an alert when customers are not buying as planned."

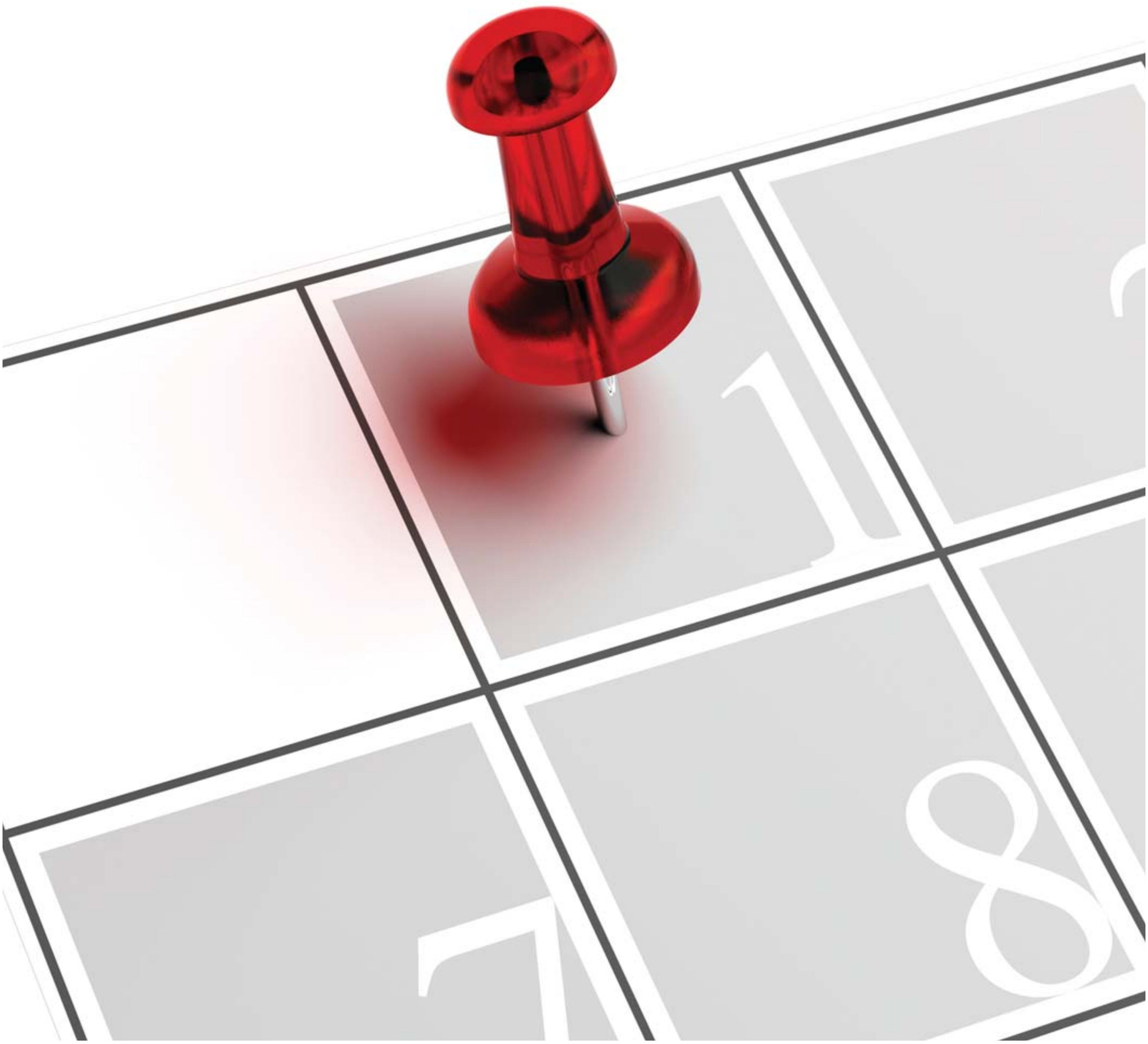
Some companies are taking this a step further. Crum recalls attending a supply review meeting for a client that had more than two years' experience with Demand Control and Integrated Business Planning. "As part of supply review, the production organization noted that they would have excess capacity the seventh, eighth and ninth months of the plan. So they told sales, 'get us additional volume for those three months.' That is how the process ought to be working," she says.

The overall impact on revenue is even greater than these examples indicate, says Ferguson. "Demand Control leads to better customer service and retention, which creates opportunities to attract new customers and to grow the business."

One reason for better customer service is that Demand Control shifts the business to a more proactive stance, says Holmes. "With a well-functioning Demand Control process, demand/supply synchronization is reviewed and evaluated more frequently—daily or weekly, as appropriate. This leads to responding more quickly and proactively to potential demand/supply imbalances, rather than waiting for an urgent situation, such as a customer order, to attempt to align supply with demand." Being a reliable supplier becomes a differentiator in a company's value proposition to customers, he says.

A final benefit not often associated with Demand Control is around new product execution, says Ferguson. "We should highlight this because there is so much inherent uncertainty when launching new products. If you have a Demand Control process in place, you can validate your assumptions about new products more easily and routinely than with any other process and can quickly make appropriate adjustments."

When companies implement a Demand Control process at the same time that they implement Integrated Business Planning,



the realization of these benefits is accelerated, says Holmes.

"Companies need both Demand Control and Integrated Business Planning," adds Crum. "If they implement both at the same time, which is what Oliver Wight recommends, they will have a process for dealing with near-term demand issues, and the management team will be able to fully engage in the Integrated Business Planning process and use it to achieve the company's annual business goals and objectives as well as its longer term strategy."

Misunderstood

Despite these benefits, Demand Control often is "misunderstood, misinterpreted, and just plain neglected by companies," says Holmes.

One primary reason is that a lot of leaders are very good at firefighting, he says. "They are frightened that if they actually started to have time for medium- and long-term planning they wouldn't know what to do. They purposely stay in the weeds where they are comfortable."

Another reason is "all the software vendors that are busy selling all sorts of demand sensing and fancy algorithms to basically eliminate this problem. But those application only give you action messages—they won't make a decision for you. Demand Control is all about forcing managers to make decisions. If you have 1,000 in stock and demand for 2,000, which customers don't get product?"

However, Holmes stresses that Demand Control is not about saying 'no.' "One aim of the process is to say 'yes' to demand, if at all practical. If that can't be done, we say 'no, but'—I can't deliver today, but I can get it for you in an agreed amount of time," he says.

Reiher notes that Oliver Wight gets more unsolicited, positive client response about Demand Control than any other process or solution. "They constantly tell us that Demand Control really makes a difference in their business and in their lives," he says. "It positively impacts results and it also makes work a lot less stressful."