Capgemini Consulting

Integrated Business Planning

Steering Towards Profit

Accurate financial forecasting starts with meaningful profitability analysis; this means obtaining a good understanding of which channels, customers and products make money

Surprises are no surprise; the question is: "what will you do about it?"

Even in the good times organizations can be caught out by the unexpected. In these more turbulent times, being able to deal with change – however surprising – is becoming a core business capability. Businesses that can't respond in a controlled and profitable way can fall behind the competition and may fail.

A well-run business will hit its financial forecasts

It takes more than simply luck or just better foresight for a business to hit its financial forecasts. Indeed, the idea that the sales and marketing teams can provide a perfectly accurate forecast of customer buying behavior at individual product level is clearly a myth. Commercial organizations therefore need an operating model capable of detecting changes in customer demand and sales trends and then flexing the sales activities and production to secure the equivalent financial result.

In recent history, integrating the planning and operations of Sales, Marketing and Supply Chain has delivered significant benefits to many organizations; this is usually achieved through a considered process of Sales and Operational Planning (S&OP). This process has driven improvements across important areas such as product availability, markdown expenses, production costs, working capital levels and inventory holding costs. However, only best-in class organizations have succeeded in integrating this activity with both strategic and financial planning. The additional financial dimension ensures that the S&OP delivers the organization's top and bottom-line targets and that the business does not operate outside defined financial parameters.

Accurate financial forecasting starts with meaningful profitability analysis; this means obtaining a good understanding of which channels, customers and products make money. This should include the drivers of full end-to-end costs to sell and deliver the product to your customer and collect the cash.

To meet forecasts, the business then needs to act decisively and make reallocations of resources and investments at the right time, thereby managing the business towards the original target. This analysis and reallocation needs to happen at any time in the performance calendar, not just during the budget or at quarter-end.

Companies that have implemented Integrated Planning see many benefits across a number of areas, including:

- Faster and more informed decision-making, based on an end-to-end view of the business
- Improved customer satisfaction through better on-time delivery and fewer stock-outs
- Improved inventory turns and better management of obsolete and excess stock
- More effective resource allocation between competing projects and investments
- Increased ownership of targets and rapid commitment to revised plans
- More efficient planning, both in terms of how long it takes to complete a plan and the amount of resource required to support it

Leading organizations take these skills a step further and put in place contingencies and mitigation plans around core scenarios; this enhances further the ability to change direction rapidly. For example, if your in country reaction to a new competitor promotion has already been approved during your main planning cycle, then action can be taken immediately without the need to reconvene regional management teams.

The effective and co-ordinated execution of these processes is required to sustainably maximize results and hit forecasts – the measure of a well-run business.

The blockers to effective planning are complex, but identifiable

Divergent functional agendas

Sales. Supply Chain. Finance. The three key functions involved in business planning have different objective demands for the rest of the business. They are all legitimate, but cause tension between the functions. Sales needs the rest of the business to be flexible and "fleet of foot" to adapt to rapidly changing circumstances, opportunities and demands from customers. The Supply Chain function wants Sales to give more notice of customer demand, and seeks relief from restrictive financial goals. Finance wants Sales to "stop chasing revenue at any cost", Supply Chain to reduce costs, and to manage the business within covenants and other financial targets.

Mis-aligned incentives

In addition to these objectives, there are behavioral pressures that can drive unhelpful behavior.

Past experience has taught Sales & Marketing to provide conservative sales and promotional uplift forecasts, particularly when over-target performance is rewarded regardless of the incremental costs and difficulties it causes down the Supply Chain. This can be a difficult behavior to modify particularly if senior management push for growth to meet market expectations and their own bonus aspirations. The Supply Chain function itself may have an interest in inflating forecasts to justify longer production runs and greater factory efficiencies.

Silo-based planning processes

While distinct business functions exist, all are symbiotic in nature. However, functional planning is too often under-taken as a discrete exercise and the link to other functions happens almost as an afterthought. In the worst situations, re-forecasting is a last minute task tagged onto the end of the month-end performance review.

At a minimum the result of this silo based process is to greatly increase the number of iterations required to plan. At worst, the result can be a forecast that is not practical for one or more function, which could ultimately put the ongoing viability of the whole organization at risk.

Inadequate data and systems

A lack of available data and suitable systems to support the planning process often increases the workload required to plan across these functions. The extended time and effort to iterate and co-ordinate the different perspectives can, in itself, contribute to inaccurate planning. People are less inclined to undertake detailed analysis or try new scenarios if this means a lot of effort and a three-day wait for the likely outcomes.

Even if the organization is able to produce accurate profitability analysis, making the right commercial

decisions is still not a straight forward exercise; there are many legitimate responses to the identification of a loss-making product. However, due to lack of data integrity and inappropriate cost allocations many organizations are struggling to produce this fundamental decision tool – a true picture of profitability for different channels, products and customer groups. In this situation it is likely that they are making too many decisions on 'gut-feel' alone.

Opaque financial reporting

Obtaining a clear view of the relative performance of the management teams in different business units or territories is critical to understanding how and where to intervene and allocate resources. The true relative performance of units can be obfuscated when there are high volumes of intercompany trading and significant foreign exchange movements between the purchase of raw material and realizing an external sale.

Integrated Planning is key to being "fleet of foot" while not being over-committed

Integrated Planning refers to the process of planning, budgeting and forecasting across the key functions of Sales and Marketing, Supply Chain and Finance within an organization. In executing this process effectively, an organization can arrive at a planning result that fulfils its overall strategic goals. At the same time, this will be driven by Sales & Marketing, in a way that is attainable by Operations, while also being financially feasible.

It is about understanding what makes money for your business and ensuring you're equipped to make profitable responses to unexpected events.

Finance, Supply Chain and Sales & Marketing have clearly defined roles

The role of Sales and Marketing

It is Sales and Marketing's responsibility to:

- Shape demand to maximize margin, for example using price and promotions
- Optimize the product mix to maximize profitability
- Adjust supply and communicate to customers according to the demands of the integrated plan
- Forecast more accurately and report more frequently
- Be prepared to communicate the bad news to customers

It is the responsibility of Sales and Marketing to use its influence with customers to define the supply and demand agenda to maximize revenue and profit in line with corporate objectives. While Sales and Marketing must be given the ability to make tactical decisions, those decisions should be made with full knowledge of the profit implications.

Without up-to-date information, clear performance parameters and support from Finance and Supply Chain, Sales and Marketing can waste significant amounts of time obtaining agreement to deals that have a significant chance of turning out to be bad business.

Leading organizations that have embraced integrated planning acknowledge that Sales and Marketing cannot be a passive observer of the planning process. Instead, Sales and Marketing needs to be better able to forecast the impact of short-term disruptors to planned product volumes and long-term trends, and to work with Supply Chain and Finance to manage clients' expectations through proactive communications and pragmatic mutually attractive

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deals. In the world of profit maximization, this can leave Sales and Marketing with a range of difficult tasks that can include stimulating additional demand or the more difficult task of explaining why demand cannot be met.

For Sales to be fully involved in this process, it is important to ensure that it has the necessary skills, appropriate tools, relevant information and responsive processes needed to come to a prompt agreement with both Finance and Supply Chain of what needs to be done to optimize sales opportunities, from an end-to-end organizational point of view.

To drive the right behavior, the measures of individual success need to be aligned with profitable and cash-generating deals. When the measures of success used to reward Sales teams reflect only part of the business equation – such as total sales value or quantity – then the behavior it promotes will similarly consider only a small part of overall organizational success and ongoing viability.

The role of Supply Chain

Supply Chain, as the function that owns the physical connection from supplier to customers, has to establish a balance with Finance and Sales in order to:

- Flexibly match output with the sales strategy
- Drive efficiency in production and distribution & logistics
- Manage across business regions in its own and other functions
- Work with Finance on investment cases (capex and opex), stockholding or ownership options
- Match supply in the short term to agreed promotional activities

Supply Chain must inform Sales of opportunities and concerns so that this information can be used to manage demand and agree the necessary actions. These actions may be both palatable, such as allowing customers to take advantage of cost savings on slow moving stock, and less so, such as notifying customers their orders will not be met.

Supply Chain must work collaboratively with the key organizational functions of Sales and Finance to address the complex questions that result from the goal of end-to-end profit maximization. For example, should latent capacity be sold at marginal cost? How do we turn a loss-making deal into a profit? At what point do we walk away from a loss-making deal, product or customer? What should happen when commodity prices change?

Many of the end-to-end costs associated with providing goods to customers reside within the Supply Chain. Because of this, Supply Chain has an obligation to work with the other key functions and optimize these costs to meet business objectives and maximize profit.

The role of Finance

Finance is responsible for:

- Highlighting which parts of your business make money, and which parts lose money
- Scenario modeling the financial impact of volume / price, promotional and other business options
- Ensuring the business continues to operate within the banking covenants and other financial targets
- Aligning planning, budgeting and forecasting processes
- Being prepared to say “no”, and to explain why that decision was made

The rest of the business demands that Finance tells them something they don’t already know, and that the

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function should help them move towards fact-based decisions wherever possible. Additionally, senior executives expect Finance business partners to fulfill a critical role by challenging decision-making processes.

Satisfying these demands requires a function with exemplary technical abilities (such as analytical capability to model the impact of promotional or price 'lift'), as well as a capability to interpret business requirements, and influence people outside Finance.

When Finance is operating effectively it becomes a critical contributor to key business processes, such as strategic direction and target setting, forecasting and gap management, variance analysis across categories and brands, deal pricing and customer negotiations, and trade and marketing investments.

Although processes and behaviors must be aligned, effective technology is also a critical enabler of Integrated Planning

To be effective, technologies need to support the following capabilities:

- Modeling and simulation of the potential sales scenarios, including new product introductions and the associated end-to-end flow of materials and products
- Building the financial outcomes, (profit & loss, balance sheet and cash flows) from the physical model
- Analyzing the profitability of different channels, products and customers, including practical allocation engines for all relevant costs
- Extracting and consolidating data from underlying systems without the need for manual interventions
- Reporting and dissemination of results across different time dimensions, to allow daily monitoring and other timely decisions

Working with Capgemini

While many organizations wanting to move to Integrated Business Planning have common issues or characteristics, we have found that no two journeys are the same. For example, some prefer a comprehensive program of short-term initiatives that will build to success through a series of immediate improvements, while others see benefit in using a technology refresh as a way to achieve process and people change.

At Capgemini we believe our role is to bring our planning experience and expertise along with our tools and methods to make change happen in a sustainable fashion.

Whichever is the right way to deliver change in your organization, you will see tangible and measurable differences:

- Sales, Supply Chain and Finance connected and aligned to a common goal and plan
- Customer, channel and product profitability at the heart of operational decision-making
- Targeted management of supply chain costs
- Active management of customers to balance profit against the service promise
- Closed-loop reporting – to learn from the outcome of previous decisions
- Forums and governance in place to respond profitability to the unexpected

Case study: Global Drinks Business achieves Integrated Planning across Regional teams and Functions

Capgemini recently worked with a company to create a planning solution that shaped the business in the medium term, i.e. 3-12 months. This was necessary to optimize net revenue within a range of matured products (brandy, rum, whisk(e)y etc.).

Capgemini developed a process to connect local sales and marketing businesses to regional/global Finance teams and the Supply Chain that included planning centers and production sites. The process included formal meetings with defined decision rights that presented the forward view and built consensus around one number either in local or aggregated forms.

The cascade of rights and the escalation of issues allowed the organizational tiers to optimize profit via:

- Lower production and stocking costs
- Maximizing marketing spend as right stock, right place improved
- Supplying product to the most profitable markets when supply was constrained

This was an integrated business planning solution that aligned the functions tactically and so supported the delivery of the corporate strategic objectives.

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