Informative guides on industry best practice

OLIVER WIGHTPAPER series

Navigating Uncertainty:

Is Your IBP Process Fit for the Future?

Imagine the **possibilities**,
realize the **potential**.®

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Introduction

Planning future performance is an integral part of most companies' operations today – longer-term strategic planning, medium-term business planning, and annual operating planning and budgeting. And whilst there might be a collective groan throughout the organization when the 'planning cycle' is announced, most executives would acknowledge that it is impossible to run a company without a forward view of the resources required to achieve the desired objectives.

Of course, a plan is our best estimate at that particular point in time of the activities required to achieve a certain objective, with the proviso that certain internal and external conditions are in place to deliver the plan.

A robust plan is built on a solid set of assumptions, which are supported by realistic activity plans to produce a view of the future which can be referred to as 'the most likely outcome'. This most likely outcome is predicated on our understanding of past performance, in other words, what we have demonstrated we are capable of doing, together with our intelligent estimate of what the future conditions will look like. This latter element is where we encounter all kinds of uncertainty. We have made a prediction of the future using assumptions, which are not guaranteed to be accurate and, as we all know, the future is always changing. So the plan could even be redundant the day after it has been approved.

This level of uncertainty requires a dynamic planning process to keep abreast of any internal or external changes to allow the executive team to make critical tactical and/or strategic choices for the good of the business.

In our experience, those companies that embrace a continuous Integrated Business Planning (IBP) approach are usually in a better position to manage future uncertainty and build contingency plans as a safeguard against any future events that could impact the achievement of the strategic objectives.

There has rarely been an event such as the current Covid19 pandemic to test the resilience of a company's performance and expose whether the executive team has developed contingency plans for such a situation.

A well-designed Integrated Business Planning process that is actively owned and deployed by the executive team will allow the company to manage this significant change to the business environment in a controlled and deliberate manner, providing clear direction to the whole business on the way forward.

We were interested to find out how companies were coping with these very abnormal conditions, so we spoke to many business executives across diverse industries over twelve months of the pandemic to understand if their IBP process was helping them navigate these turbulent times.

The findings are significant.

What is IBP?

- A process led by senior management that evaluates and revises time-phased projections for demand, supply, portfolio, strategic projects and the resulting financial plans. This is done on a monthly basis on a planned 24-month rolling horizon.
- It is a decision-making process that realigns the tactical plans for all business functions in all geographies to support the company's business goals, strategies and targets.
- A primary objective of the process is to reach consensus on a single operating plan, to which executives of the management team hold themselves accountable and allocates the critical resources of people, equipment, inventory, materials, time and money to most effectively satisfy customers in a profitable way.

1. Strategy Deployment Struggles for Focus

One of the most critical characteristics of the Integrated Business Planning process is its the ability to reconcile the current view of the future against the strategic plan that was set and agreed upon sometime in the past.

The leadership team has a responsibility to ensure there is the right balance of resources being deployed against current 'business as usual' activities together with the planned strategic initiatives in order to achieve the stated business objectives.

If we recognize that these strategic initiatives have a long lead-time from inception to delivery, then using the IBP process to look beyond the current financial year to ensure that the company is prepared for the future, makes good business sense.

Strategic planning should not be a 'set and forget' exercise – it should result in a meaningful document that is referenced on a regular basis. The IBP process is the ideal environment for this reconciliation exercise.

In our research we found that a substantial two-thirds of companies are using the IBP/S&OP process to monitor the deployment of strategy, however the research also uncovered that only 52% of companies have active involvement from the executive leadership team. This suggests that middle management personnel are the main players when it comes to strategic deployment tracking and monitoring; it begs the question, 'how does the executive team receive this critical information'.

Experientially, we find that companies move through different phases of process maturity which links performance results with the ability to evolve processes. Those companies which are continually faced with significant month-to-month variances versus their agreed plans – in other words, they are performing below plan consistently - are most likely to have executives who are getting involved in short-term problem resolution and have very little time to devote to the medium and long-term plans.

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2. Linking Decisions to Assumptions (or Don't Assume You Have Assumptions!)

All decisions we make in life or in business are based on our assessment or prediction of what is most likely going to occur in the future – these assessments are typically called assumptions and become our educated description of future conditions or facts.

If our strategic plans and business plans articulate our objectives for the future and the actions we will take to achieve these aspirations, then there is a strong chance that these plans will be underpinned by a set of documented assumptions.

These assumptions will have a corresponding set of actions that the executive team will approve and delegate to the relevant personnel for execution.

Should we find that we are under- or over-performing against our planned objectives then analysis should be undertaken to assess the deviations to understand where reality differed from our prediction of the future conditions i.e. our assumptions.

It naturally flows, that if we uncover evidence to suggest that we got our assumptions wrong, we would be expecting the responsible personnel to declare the variation and subsequently suggest a change to the plan which would ultimately need to be approved by more senior executives.

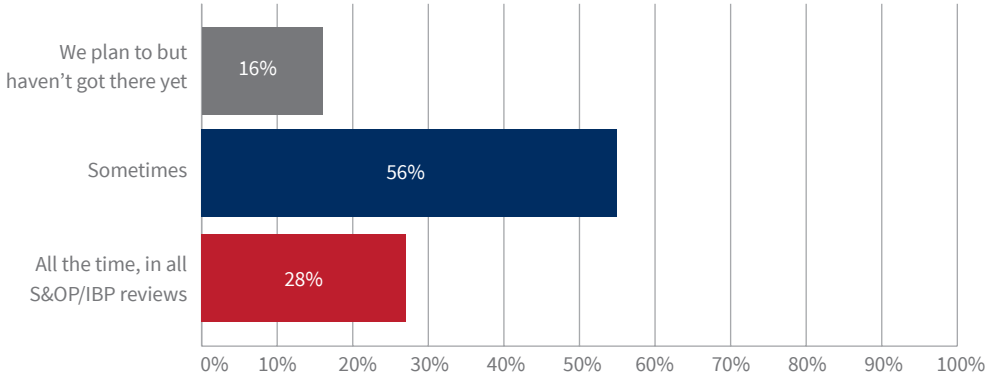
The proposal to change the plan would usually be supported by a formal document that would explain the background of the issue, the financial impact on the business, the alternative options considered to rectify the issue and the resources required (people and/or money).

Interestingly, in our research, we found that only 28% of companies are referring to documented assumptions when making decisions which suggest that seven out of 10 companies either simply didn't have assumptions to provide a reference for comparison or, they didn't see the linkage between the original plan and the current proposal. Of course, it could also be that managing a Covid19 crisis situation distracted the thinking (understandable) to a level where the original business plan was redundant and survival became the priority, leading to a whole set of new objectives and activities.

Those companies that are referencing the assumptions even in an extreme event like Covid19 would more than likely have a solid planning framework like IBP that provides the forums to discuss the deviations to plan and how these can be addressed. The urgency levels will have increased but the discipline of process would prevail.

"Understanding what skills will be required when and in what quantity, and then planning for this is a key task for the HR department."

How well are the assumptions supporting the numbers in your S&OP/IBP plans documented and linked to activity plans as part of your S&OP/IBP process?



3. Scenarios are the Future

Could we have anticipated Covid19? Highly unlikely! However, there are many situations we could anticipate if we took the time to formally consider different business scenarios on a regular basis.

If we recognize that the existing strategic plan is one of the many choices we could have made about the future and our aspirations, then it naturally follows that there are more scenarios that we rejected than accepted. After all, strategic planning is about focus – you can't do everything.

Should we keep these alternative scenarios alive, or should we discard them and only revise our thinking when an issue arises or when we are required to update the strategic plan?

In our experience, those companies who keep alternatives alive or at least undertake a regular process of discussing different scenarios of the future have a much stronger chance of responding quickly and effectively if conditions change dramatically as we found with Covid19.

This is once again one of the key characteristics of a robust IBP process – the ability of the leadership team to recognize that uncertainty is always present and develop contingency plans to address different articulations of the future and manage it, whatever it holds.

Our research uncovered the startling statistic that only 7% of companies develop and review scenarios on a monthly basis. Maybe the majority are reviewing alternative scenarios and contingency plans on a less frequent basis, annually perhaps, but as one CEO recently remarked to us – "market conditions are changing so rapidly, we need to be continually developing contingency plans to be response ready". Those companies that fail to take a proactive stance will always be in reactive mode, which provides its own set of challenges and costs.

On a more positive note, 60% claim to have identified risks and opportunities for the immediate future, however this would typically only cover the current financial year and is usually limited to business as usual type scenarios instead of the impact of key business drivers.

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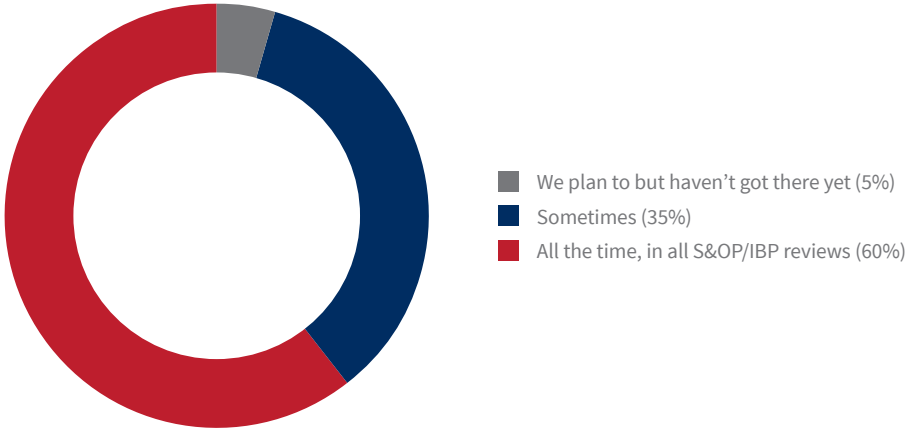
Do you identify vulnerabilities & opportunities associated with your S&OP/IBP plans as part of your S&OP/IBP process?



4. Confusion Between Planning and Execution

Referring back to the definition of Integrated Business Planning earlier on this page you will see that the senior leadership team has an obligation to approve a plan every month that it believes will achieve the company objectives. The latest plan might replicate the previous month's plan, but the act of being diligent in reviewing past performance and verifying the current set of future assumptions at an aggregate level on a monthly cadence is giving the business confidence that the leadership team is in control and guiding the business with strong commitment.

This regular monthly validation is providing the direction and approval to the middle management teams to take the aggregate plan and convert into an execution plan to deliver the objectives of the business as agreed by the leadership team.

Having an inextricable connectivity between the IBP aggregate plan and the detailed weekly/monthly short-term executional plans is critical. The people in the business should only be working on activities that are aligned to these plans.

"Having an inextricable connectivity between the IBP aggregate plan and the detailed weekly/monthly short-term executional plans is critical."

An essential element of this connectivity is communication. How does the business provide information to the leadership team on performance, assumption updates; identification of vulnerabilities and opportunities; proposals to address identified gaps, and so on, to allow them to sign-off on the agreed direction?

How does the leadership team then communicate through the organization the agreed plans to ensure that everyone is aligned to their thinking and direction?

Having a well-designed Integrated Business Planning process will provide the answer to the top-down direction and having a well-designed Integrated Tactical Planning process will provide the answer to the important connection to execution plans. Our white paper on Integrated Tactical Planning[1] explores the executional element in more detail.

Interestingly, in our research we found that 60% of companies don't link their monthly approved IBP plans to their weekly executional plans – that's a large percentage of companies that are disregarding the direction given by the leadership team to the rest of the organization.

[1] https://www.oliverwightasiapacific.com/resource/white-papers/Effective%20Execution%20of%20S&OP%20IBP%20Plans%20through%20Integrated%20Tactical%20Planning

How can this happen? Well, we have seen instances where the leadership team agree a revised plan via the IBP process which is different to the annual budget and/or strategic plan yet they continue to direct the business to strive for the budget. This leads to different sets of numbers creating confusion within the business.

Another example is caused by different functions simply not believing the plans or forecasts of their colleagues and building plans that they believe are achievable instead – once again, different sets of numbers.

Resolving the two scenarios above requires an organization that values realistic assessment of the business environment, openness and honesty with cross-functional performance, as well as reliability and credibility.

5. Dragged into the Short-Term Horizon

It's only natural for an extreme event such as Covid to completely distract everyone in the business and for the leadership teams to take an 'all hands on-deck' approach to guide the company through these unchartered waters.

This environment would typically lead to daily/weekly meetings to ensure that the right resources are focused in the right areas to reduce risk or to capitalize on opportunities that arise.

There is always a degree of uncertainty in business plans and even in a pre-Covid 'normal' environment there will always be variation on what is expected. However, the pandemic raised the level of variability to degrees of magnitude not seen before by many companies.

In normal conditions, the essence of Integrated Business Planning as an executive led process, is for the business leaders to behave in a proactive manner, anticipating any vulnerabilities or opportunities within the existing plans.

However, executives can be diverted away from this proactive responsibility and dragged into the short-term executional activity, especially if there is a lot of weekly or daily change to demand and supply. This is exacerbated if the signed-off plans are not realistic. All of which creates an accident waiting to happen!

If realistic aggregate plans have been developed, there comes a point in time when the plans need to be executed. This point in time is known as the supply time fence and is based on the company's ability to cost-effectively source, make and deliver product – it's otherwise known as the cumulative supply lead time.

If the aggregate plan that has been agreed upon in the monthly IBP process is realistic and based on demonstrated performance, there is a strong chance that the detailed plan can be executed with confidence, as long as customer orders also align with the demand plan.

But we know that demand is variable and whilst we might have a policy that allows holding extra inventory to cover reasonable variances, there is usually never enough inventory to cover substantial abnormal demand. The same applies for the supply plan – we might carry extra raw materials and packaging, however if there are substantial deviations in supplier capability then we might not have the inventory to satisfy the demand plan.

So, we need an executional process to manage the detail short-term plans to cover demand, supply and product management. We use the term Integrated Tactical Planning* which is a process deployed by your key middle-managers supporting demand control, master scheduling and new product introductions.

With clear policy and process definition, as well as roles and responsibilities supported by appropriate decision-making criteria, the executive team should be able to feel confident with its line management team to manage the execution of the plan.

Of course, if major deviations in demand and supply occur as we experienced during the early days of the pandemic then the executive team will need to be apprised of the situation and resource decisions taken to manage the situation.

Some of these decisions will need immediate attention so it might be appropriate to convene extraordinary meetings, however there needs to be strong connection between these daily/weekly meetings and the formal monthly IBP reviews to ensure that any short-term resolutions also take account of the effects on the medium-to-long-term plans.

"There is always a degree of uncertainty in business plans and even in a pre-Covid 'normal' environment there will always be variation on what is expected."

Our recent survey revealed that only 12% of companies are looking beyond the current financial year in their monthly IBP process. 30% of companies are only looking at the next three months whilst 58% are only focusing on the current financial year.

6. Executive Engagement is Essential

If Integrated Business Planning has been accepted by the leadership team as the process for aligning all plans across the business, it stands to reason that ownership of the process would sit with the most senior executive; the CEO or MD; it would involve all of his or her direct reports; and it would be accepted as 'the way we do business'.

In 50+ years of experience we can attest to the fact that executive engagement is essential. Where else does the direction of the business originate? The strategic plan, the business plan and the annual operating plan/budget are all approved by the executive team.

Monthly business reviews as stated earlier, should be configured to assess current performance and receive an update on current market environment and any internal issues or challenges. These reviews should be comparing performance against the annual operating plan and the business plan or strategy. Therefore the key internal customers for this vital information will again be the leadership team. It stands to reason that it would be engaged in the process.

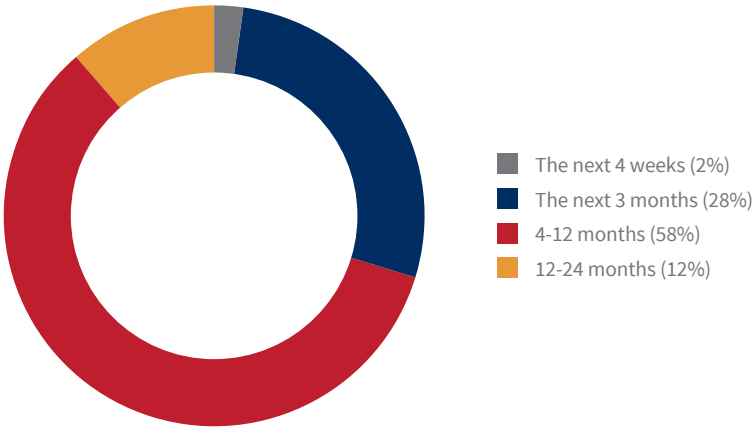
However, only 52% of companies that we researched have active engagement from the executive leadership team in the critical IBP process.

So, what's happening with the other 48%? Are these executives missing in action? Are executives working on activities that are more important than the business activities and performance, or is there a replication of business reviews that take place in addition to the IBP process?

In our experience, if the executive team doesn't completely buy-in to IBP as 'the process' to run the business, it will abrogate or delegate the process to a single function like Supply Chain or Finance, to run it concurrently with other already-established business review processes.

This misunderstanding of the value and importance of IBP usually generates confusion within the ranks and creates ambiguity with decision making.

What part of the planning horizon do you spend most time discussing in your S&OP/IBP process?



7. Virtually Valuable

We can probably all agree that the Covid19-induced state of working from home has caused us to re-think how we manage our time, and also how we run business meetings. The anecdotal evidence strongly points to an increase in the number of meetings which is offset partially by a decrease in meeting duration. Our feelings of 'busy-ness' and the expectation of being constantly available appear to have increased around the world. Everyone we speak to is always busy!

However, one key insight is from companies which see the value of having formal processes describing a regular cadence of activity; the people who should be involved in the activity; and the expected duration of the activity.

Those organisations which had these formal processes in place before the pandemic struck were in a much stronger place to transition from 'work in office' to 'work from home' – it was almost seamless.

A process such as IBP which requires a disciplined monthly cadence of business reviews preceded by robust preparation became invaluable in this abnormal environment and demonstrated the power of such a comprehensive management tool.

"Only 52% of companies that we researched have active engagement from the executive leadership team in the critical IBP process."

Conclusion

With more uncertainty than ever before surrounding our business lives, as well as our personal lives, it stands to reason that we should be proactively managing our futures to ensure we mitigate risks and exploit opportunities in the most efficient manner possible.

Maintaining a solid management process such as IBP, which is actively owned and practiced by the leadership team seems to make sense. The key elements are:

- Constantly steering the business via the reconciliation of the current environment against the objectives of the strategic plan
- Consistently validating the key assumptions underpinning the plan
- Actively engaging in regular scenario planning sessions
- Understanding the difference between planning & execution
- Not getting dragged into the short-term executional horizon by empowering and trusting capable middle managers to deliver the objectives

If your IBP process facilitates these things, we can confidently say that it and your business are fit for the future. If not, you may want to give us a call.

About Oliver Wight

When you talk to Oliver Wight about improving your business, we'll assume you want results, not just better processes - things like increased revenues and margins and greater market share. If you have the ambition, it is possible to make improvements that truly transform the performance of your organization and create more fulfilling roles for the people within it. We believe this can only be delivered by your own people. So, unlike other consultancy firms, we transfer our knowledge to you; knowledge that comes from nearly 50 years of working with some of the world's best-known companies.

Oliver Wight has a long-standing reputation for innovation and we continually challenge the industry status quo, so you always get the latest in new thinking. Your Oliver Wight partners will use their real-world experience to ensure your people, business processes and technology are fully aligned and integrated right across your organization.

They will coach, guide and inspire your people to drive change throughout your organization, allowing you to create a culture of continuous improvement and innovation that simply becomes for you 'the way we do things around here'. It's a proven, sustainable approach that will deliver results straight to the bottom line.

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