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Re-aligning plans to reflect reality: The importance of forecasting in the coronavirus crisis

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The last few weeks have drastically reinforced to many businesses, the need to truly understand the demand patterns of not only their customers but also their customers' customers. Whilst some businesses have completely flatlined, others have found themselves overwhelmed by a surge in demand (often purely as a result of consumer's panic buying). This has put into sharp focus, the absolute necessity for businesses to be able to predict when this type of peak in demand is likely to happen and to have the planning processes in place to enable quick, responsive and effective decisions.

Those businesses that are riding the current storm effectively, all have a strong demand monitoring process in place that allows them to capture actual demand as it occurs and then compare this to expectations and

typical levels of demand variation. Top-performing businesses monitor demand on a monthly, weekly, daily and hourly basis, but also have their eyes and ears on the ground – 'demand sensing tools' – to understand the root-cause of changes in demand patterns, and an efficient means of communicating business intelligence changes as they occur. Demand sensing capability delivers a superior customer experience in terms of product availability leading to increased service levels, whilst simultaneously reducing inventory costs and maximising profits.

Vitaly, a key characteristic of a successful organisation is that their demand plans closely align with their financial plans. Traditional annual budgets for this year are, for the majority of businesses, now largely irrelevant. Assumptions made in the annual financial plan will likely not have considered COVID-19, hence the need for a rolling financial forecast driven by demand – without this the numbers and assumptions for the rest of the year will be completely unrealistic.

For finance, it is not simply a case of reporting the numbers, their role focuses on providing the analysis behind those numbers. How does the financial performance relate to the plans that were reviewed and approved previously? Which assumptions were proved wrong? This requires close coordination with the demand team to ensure that evaluation of the financial measures lines up with root cause analysis on measures such as aggregate demand plan performance and forecast accuracy.

When it comes to assessing opportunities and vulnerabilities for demand, the financial implications must always be determined to ensure that the business is focusing on the right areas. Finance should consolidate all the inputs received, critiques and analysis, identifying gaps to financial commitments – this year's budget, next year's targets and further out over the company's planning horizon. Its task is then to support the production of gap-closing recommendations with robust financial information. These suggestions go on to inform the wider demand review process.

Organisations where these processes are not working alongside one another as part of an integrated business planning process, or that lack the processes altogether, have found it much more difficult to adapt to the rapidly changing demand caused by the COVID-19 pandemic. In one example, an organisation we worked with which provides essential equipment to health services around the world, experienced a significant bulge in demand for many of its products. It was clear that although the company had some demand planning capability in place, the process was inadequate in terms of monitoring and managing the short-term demand. Consequently, it found itself operating in crisis mode. It was even at risk of sending products to low priority customers instead of those healthcare providers who desperately need its products for patients suffering with coronavirus.

The team had not allocated sufficient dedicated resource to manage the short term, including updating the assumptions or the demand plan on a weekly basis. Decision-making rights and market/customer priorities were not clear, despite this being essential information to help the company decide which customers to prioritise when there is a shortage. A review and development of the process, role descriptions, prioritisation mapping, and alignment on where decisions should be made, was all that was required to leave the team feeling much more confident it could manage the business effectively going forward and prioritise the right customers during the coronavirus crisis.

Looking to the future, it is impossible to ignore the importance of technology when it comes to accurate forecasting. Some businesses are already harnessing the power of AI, IoT and Big Data to respond in record time, more accurately anticipate future demand and gain a truly competitive advantage – by not just meeting customer demand but predicting it. Data analytics can quickly, efficiently, and effectively translate thousands of data points collected on consumers into deep insights that allow companies to get to know their customers better than they know themselves. This helps to predict future behaviours and develop plans and processes to respond quickly to potential changes. Those businesses utilising this technology to its full potential have been left in a better position to adapt to the unexpected demand caused by the pandemic, and could serve as a lesson to other businesses in being better prepared for the next unexpected event.

For more information, Oliver Wight have produced a white paper on the topic of demand sensing and execution, which can be downloaded for free [here](#)



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