Demand Management

A sales and marketing process
Introduction

In the consumer-driven business climate of today, the most successful organisations are those that can meet customer demand, as efficiently and profitably as possible. Even if you are one or more steps removed from the consumer, it is vital their needs and wants run through the bloodstream of your entire supply chain.

At the same time, effective demand management and supply chain optimisation hinge on understanding where value is created from the customer’s perspective.

By definition, this means demand management must be led and managed by those in your organisation who are closest to the customer and those who have the greatest understanding of what is happening at the point of consumption. Depending on your position in the supply chain, this is typically sales for the former and marketing for the latter. It is critical they work in an integrated way and in every respect, demand management becomes a real sales and marketing process.

Whilst the basic principles of demand planning remain unchanged today, the bar has been raised. Businesses need to respond to this and take their demand management to the next level, if they are to avoid being left behind by the competition.

Not only does a consumption-driven demand management process remove unplanned issues, it improves customer experience and optimises cost-to-serve, providing distinct competitive advantage. Without such a process, companies will find operating in the current business environment incredibly challenging.
How can you provide the right service for customers if you don’t understand what they want? Best practice demand management is customer and consumption-centric. As figure 1 shows, the sales and marketing team is responsible for deploying the sales and marketing strategy. Moreover, customer and consumption demand is in turn, directly influenced by marketing mix activities. Therefore, demand planning must be a sales and marketing process.

This may seem logical, but it is surprisingly common for confusion to exist over where responsibility resides. Often demand is seen as a supply chain process, or in some cases is led by finance. If demand management is based on guesswork from the supply team or what executives have promised the company shareholders for the coming year, inevitably there will be a disconnect between company plans and actual customer demand. If the forecast is inflated, there will be the need for promotions, discounts and additional spend to boost sales, all of which eats into company profits; conversely, if demand is understated there will be an adverse impact on customer service, company image and of course the business will not take action when it should - now! Instances where supply chain departments mistrust sales and marketing and try to predict the market themselves are also common, but when each functional area has its own version of the demand plan, naturally there is a negative impact on customer service, inventory levels, sales and profit.

That’s not to say supply and finance shouldn’t be involved at all. It is vital the supply team has a thorough understanding of the demand plan and a clear picture of its impact on the overall supply chain and flow of product and materials. Continuous communication between marketing, sales, supply and finance is essential, and this is what Integrated Business Planning (advanced S&OP) helps to achieve. A common-sense process for planning and managing the entire organisation, Integrated Business Planning integrates diverse processes and different plans from the individual business functions to form one integrated company plan. Comprising five monthly review processes, these provide an effective forum to measure performance, highlight gaps and drive continuous improvement in the demand management process.
Companies need to become more consumer-driven, which means not only capturing and understanding real consumption demand, but influencing it. Thus, sales and marketing must be engaged at all times and must take ownership of the demand management process. Lack of accountability is one of the most common issues businesses face when it comes to demand management. Sales and marketing need to understand they have a key role in driving demand, but responsibility does not end once products have been sold, they also have a fundamental role in controlling costs and service in the supply chain.

**Deploying the marketing strategy**

1. Define the marketing and product strategy. This should align with the business strategy and commercial plans.
2. The strategic business objectives need to be understood by Sales and Marketing and then they need to develop their response in supporting them. This may include segmenting customers and markets to effectively tailor the marketing mix. For example, in the pharmaceuticals industry, different messages are required for consultants, GPs, nurses, PCT Commissioners and patients. From this the agreed sales and marketing critical success factors will be determined. Optimise the product portfolio based on the business objectives and segmentation. The product portfolio should be kept fresh through constant rationalisation, innovation and renovation.
3. Optimise the portfolio based on the outputs from the sales and marketing team, and through the product team’s response to those outputs from a technology or legislative perspective.
4. The impact of the sales and marketing activities is then interpreted and divided into volume, revenue and gross margin sales, as part of the demand planning process.
5. Sales activity planning should now be fully aligned and integrated with the sales and marketing planning process.
6. Finally, go out and execute, using the right processes to manage and optimise short-term execution.

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*Figure 1: Deploying the marketing strategy*
**Market segmentation**

To effectively meet demand, businesses need to understand that neither customers nor consumers are all the same, and should adapt their operations accordingly. Market segmentation allows an organisation to recognise and anticipate future different consumer needs, based on marketing insights, and then decide how to deliver those needs. This often means thinking outside the box, but can bring distinct competitive advantage. For example, Kellogg’s Special K, which began life as just a ‘diet cereal’ has transformed its go-to-market strategy. Kellogg’s recognised the different segments associated with snacking habits of dieters and healthy eaters, and has now expanded its Special K offering to include cereal bars, crisps and other snack products. This has extended the brand across a range of new categories and channels and thus substantially increased its retail footprint. The brand is no longer confined to the cereal aisle and also now appeals to different buying habits - impulse purchase in the healthy snack category for example.

Segmentation is about refining your products and specialising in the delivery of them. Some organisations can’t see the wood for the trees, because they are planning by end-item SKUs over a 12-month period - that’s often thousands of items. Rather than number crunching, organisation’s need to consider changing consumer trends and needs now and in the future, which means focusing on product families and market channels, and planning at brand rather than SKU level.

Customer segments should be considered in line with the following four simple questions:

- Where are we now?
- Where do we want to be?
- How do we get there?
- How will we know when we get there?
Rolling sales and marketing plan

The customer and consumption-centric nature of supply chain optimisation dictates demand planning and sales and marketing planning should be one and the same. Combining these plans within an Integrated Business Planning process not only improves the organisation’s capability when it comes to supply chain response and segmentation, it removes much of the pain and time associated with the annual sales and marketing planning process.

In the fast-paced business environment of today, an annual sales and marketing plan will quickly become out-dated as it is overtaken by events occurring in both the internal and external environment. Moreover, when plans are set in response to a budget, and not reviewed again until the following year, gaps between the plan and actual performance only become apparent towards the end of the year, by which time it is too late to do anything significant or profitable to close the gap.

In contrast, Integrated Business Planning, as a monthly process, allows regular updates to plans. The monthly demand review process (one of the five monthly reviews) acts as the management control for demand management, ensuring sales and marketing strategy and activities are aligned, and continue to align, with the overall business strategy. It provides a 24-month rolling horizon and bottom-up realistic plan. Supported by documented assumptions, risks, issues, opportunities and metrics, from multiple inputs (including customer insights, sales activities and statistical projections), the resulting demand plan recognises the inevitability of uncertainty and takes conscious steps to manage it.

Figure 2: Continuous marketing and sales planning process
The role of demand analytics

Advanced analytics cannot only help businesses to decide what they should be doing, but also help build strategic models and manipulate data for scenario planning, evaluating the risks and opportunities. It is this information, which needs to be accounted for in anticipating the sales and marketing plan and demand plan.

Those organisations that already have a good demand management process in place can greatly benefit from the deployment of a demand analyst embedded in the sales and marketing teams. ‘Good demand management’ isn’t subjective by the way; there is a quantifiable measurement - it means at least being at the ‘capable level’ of demand planning, as defined by the Oliver Wight maturity map in Figure 4 overleaf. At this level, the right behaviours and processes have already been established; people are accountable and you can trust your demand plan. Then (at the advanced level) the focus shifts to eliminating variability in that plan and driving out cost from the business.

On-going market scanning of trends, competitor activity, and consumer habits is essential. The marketing team can then form and monitor assumptions using standardised tools, such as PEST and Porter’s Five Forces. Their impact on the business is assessed as high, medium or low - high impact changes requiring urgent response - a strategy can then be decided and the business adapted accordingly.

Remember, the quality of the demand plan will only be as good as the input it receives. With so much information coming at the business, the appointment of a demand analyst to the sales and marketing teams is a sensible move to better interpret it and - on the basis of known variables - work with the team to highlight the activities required and over what timescale. This allows the calibration of assumptions to meet the overall objective of optimising the customer experience, whilst reducing the cost-to-serve. It’s critical to note, we are talking about a specialist role here, because the analytics competences required go way beyond those of the demand manager. You will have to hire an analyst or train internally - as per the CV overleaf.

A dedicated demand analyst also adds a dynamic element to the business. Their review of the situation is continuous, rather than just monthly to fit the planning cycle, thus allowing a much greater degree of responsiveness. Investment, impact, consumer reaction and ROI can be all be continually modelled and monitored, supplying real-time information to the sales and marketing teams; in short the analyst provides the ‘reality check’ for the business. This can prove particularly valuable during promotional activity or new product introduction, where much money can be wasted on ineffective activity if the business does not react quickly. Plus, previous activities can be reviewed and improved upon for next time. Most businesses currently lack this type and level of customer or consumer understanding.

It is also true to say that the role of tools in analytics is especially important. Excel doesn’t cut it and there is a range of software providers with well-established products that support modelling, scenario planning and the accessibility of real-time information.
Before you can optimise your demand management process (and introduce key enablers, such as a demand analyst) you first need the right skills, behaviours, and processes in place to provide control and stability in the supply chain. Demand has to be managed based on what you have the ability to supply in the execution period. It is of course in the short-term execution zone, constrained by supply.

At Oliver Wight, we use a maturity map (Fig 4) to help an organisation understand its maturity and capability, and that of its supply chain partners. Naturally, the efforts of businesses at different stages of maturity will differ. Those

The demand analyst - a CV

- Have expertise in statistical modelling and forecasting, including lifecycle planning, base, events and trend analysis.
- Provide the commercial team with ongoing visibility of the macro and microeconomic trends, and supply insight into their potential impact on the business.
- Work with the sales and marketing team to optimise the planning process and agree an effective marketing mix in response to the dynamic marketplace.
- Provide the sales and marketing team with a good understanding of the impact planned activities will have, based on analytics and models from previous activity - both internal and external.
- Adjust the baseline statistical forecast with planned marketing activities.
- Provide understanding of marketing mix effectiveness to aid future planning.
- Scenario planning: modelling potential outcomes and providing solutions to known risks.
- Analyse identified opportunities and provide understanding of the investment required and anticipated business return.
- Work with the demand manager to consolidate the demand plan in preparation for the demand management review.

Demand Control vs. Demand Optimisation

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in Phase 1 will not yet have mature enough processes to consider optimisation; instead their focus will be demand control. In the execution zone, this requires putting rules in place for managing irregular demand and deciding what changes can be made in which time fences.

As a business matures and its processes and behaviour improve, allowing free flowing communication and greater understanding of both customer and consumption, proper feedback is enabled so the demand team can make informed decisions. This may initially slow down the decision-making process a little, as organisations with little control tend to say ‘yes’ to everything, but there will be fewer stock outs, much greater stability in the supply chain and improved profitability as a result.

Before a business can become lean and agile in a cost-effective way, it needs to have good control. Therefore, it is not until it reaches the top of Phase 1 that an organisation can even begin to consider demand optimisation. At this stage, it is time to look at the tools. Automating the management of orders and exceptions can speed up the process tremendously. But to achieve this you not only need to implement some good systems around demand fencing, you also need to take the knowledge from your people and put it in to the system.

As a business matures to Phase 2, with the right tools (as well as people and processes) in place, it can then optimise further. To be really good at demand execution, you need an advanced planning process. That means running the master supply schedule more regularly - daily and maybe even hourly, rather than weekly or monthly - allowing far greater responsiveness. It also requires the development of customer partnerships; a prerequisite to which, of course, is good planning and a thorough understanding of the market.
Collaboration

Supply chain collaboration has received a significant amount of column inches in recent times, and for good reason too. The improved communication and integration it provides allows organisations to more effectively meet demand, and ultimately service customers efficiently and profitably.

Collaboration puts the consumer at the centre of everything, and who knows the consumer better than the retailer or franchiser? They have the most information on consumer buying habits, and will know about upcoming promotions and their likely impact, as well as store openings, network changes and so on.

It is important therefore, to collaborate at this level as best as you can, even if you are two or three steps removed. But it takes a significant amount of time to develop real collaboration. You need to understand where both you and your partners are on the journey, recognise the remaining journey you need to take together and the value of reaching your goal.

In many organisations, the main link between different supply chain nodes is between the sales person and the buyer (procurement), see Figure 5. However, this limits the level of collaboration that can occur.

In a more collaborative organisation, each function has a link between the supplier and customer. There is greater integration, and the KPIs used to measure each function needs to adapt accordingly (see Figure 6). In this ‘diamond model’ the demand signal comes direct from consumption of the product, replenishment planning becomes easier, the senior team generates joint business plans, and short-term, real-time information is available on consumption. All of which allows the manufacturer and different tier suppliers to fully understand the buying patterns at the point of consumption and thus, demand. It also sanctions faster relay of demand signals and the ability to action a real-time response.

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Figure 5: Traditional organisation - The Bow-Tie Model
Summary

An effective demand management process, managed and led by the sales and marketing teams, is essential in driving competitive advantage. An effective demand plan can only be derived with input from a cross-section of the organisation, a 24-month plus horizon in mind and regular updates. Using embedded analytics to understand each segment of your market to become more responsive to the diverse needs of customers and consumption demand is a vital step.

Internal control of course is a necessity, but demand management has to be considered in context of the extended supply chain. Your processes can only be optimised if you collaborate with key nodes in the supply chain, to more effectively meet demand. But this is not just about satisfying customer needs today, it is about having the processes in place to adapt to tomorrow’s consumption tastes, trends, trials and tribulations; ultimately preparing for the future, whatever lies ahead.
About Oliver Wight

Oliver Wight has a 40 year track record of delivering business improvement to some of the world’s best-known organisations. We believe that sustainable improvement can only be made through your own people. So unlike other consultancy firms, we transfer our knowledge to you, which means you can achieve performance levels and financial results that last.

At the leading edge of management thinking and practice, our Integrated Business Planning (IBP) model lies at the heart of our clients’ journey to outstanding business performance. Oliver Wight originated Sales and Operations Planning in the 1980s and IBP can most simply be described as advanced S&OP; evolving from its production planning roots over 40 years into the fully integrated management and supply chain collaboration process it is today. IBP allows the senior executive to plan and manage the entire organisation over a 24 month horizon, aligning tactical and strategic plans each month and allocating critical resources to satisfy customers in the most profitable way.