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Demand Control

An Often Missing Link in a Demand Management Process

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Inspiring Business Excellence

Demand Control *is often described as one of the most critical and valued processes within an organization.*

Yet, people neglect to include it as part of their Demand Management process.

The definition of demand management, according to widely respected marketing "guru" Philip Kotler, is: Influencing the volume, timing, and mix of demand in order to accomplish a company's business goals and objectives.

Demand management touches and influences virtually every functional business activity in the enterprise. It impacts the supply chain and its relationships with customers, suppliers, and third-party providers, among others. And, demand management decisions directly impact a company's financial, operational, and customer service target objectives.

Demand management principles and solutions have been adapted and deployed by companies — small, medium, and large — across a wide variety of business and industrial sectors. Almost all have met with some degree of success toward improving sales growth and profit margins, lowering inventory, and increasing customer service. Yet, many companies continue to struggle to achieve optimal demand performance that is consistent and sustainable.

One reason is the lack of a disciplined Demand Control process. And, from what we have witnessed, Demand Control is very misunderstood, misinterpreted, and often just plain neglected by companies.

DEFINING DEMAND CONTROL

Let's start with an explanation of what Demand Control is and what it is *not*. Demand Control is not everyone from planners, to forecasters, to sales management, operations and supply chain management, and the chief operations officer running around like their hair is on fire when orders exceed supply or when orders are less than planned. "Fire drills" are what happens when a formal Demand Control process is not in place and when decision-making authority and boundaries are not well defined.

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. The process is used when demand is greater than supply over the near term and when actual orders are less than the demand plan over the near term. An effective Demand Control process also involves mitigating risk and managing opportunity. Done well, Demand Control

takes chaos out of the near-term planning process and stimulates actions that enable companies to improve customer service and increase sales revenue.

DEMAND CONTROL HELPS COMPANIES OVERCOME POOR, NONPRODUCTIVE BEHAVIORS

When demand exceeds supply, lots of poor behaviors, in the name of customers, typically occur. Sales managers, account managers, and individual sales representatives frequently contact various resources within the supply chain organization to "negotiate" for position. Sometimes, the sales organization may even contact suppliers directly to get their customers "taken care of" ahead of others in the event of a potential material shortage. The customers frequently get in the act, contacting the company president or general manager.

These behaviors result in increased workload, sometimes exponentially, and drive up cost. Ultimately, less-than-optimal choices are made, and strategic customers are not served when product is shipped to fulfill other customer orders.

Sometimes, a typical reaction to this scenario is to get sales "in line" by establishing consequences for working outside the process. In fairness to the sales organization, this behavior results from the lack of a process in place to properly prioritize demand when actual demand outstrips supply. The behavior of the sales organization cited above is a common indicator, like the canary in the coal mine, that there is no Demand Control process.

When a Demand Control process is not in place or decision-making boundaries are not well defined, the sales and marketing organizations do not have a chair at the table for making demand allocation decisions. A best practice for a Demand Control process is: Allocation decisions are made by the sales leaders. This practice always results in a change of behavior by the supply chain planning organization, which may not be used to allowing the sales leadership to determine which customers will receive product when demand is greater than supply.

An effective Demand Control process gives the sales organization confidence that their priorities are being executed.

Individual sales representatives may not always get their way, but they know their priorities have been considered. They also understand the decision-making process. For example, it is common for allocation of product to be based on the order that brings in the greatest margin. This decision-making criterion often spurs the sales organization to drive to get as high a margin as possible.

DON'T FORGET TO ESTABLISH DEMAND CONTROL FOR WHEN DEMAND IS LESS THAN PLANNED

When actual demand is below the approved near-term Demand Plan, a common reaction is for supply chain planners to take action in a desperate attempt to avoid critical cost overruns, such as excess inventory and worse – expired inventory. Just like the sales organization not having input into significant events leading to demand exceeding supply, the supply chain planners frequently take actions that lead to unfortunate results when a process is not in place to manage when demand is less than planned.

These actions frequently don't consider the timing of demand. Accurately predicting the timing of demand is the most difficult aspect of demand planning. Some of the actions that can lead to unfortunate results include manipulating the forecast directly in the system or not rolling unconsumed forecast into the following period to protect against excessive inventory.

A better process is to ensure the role of Demand Controller is established within the company. This person is responsible for monitoring orders versus the near-term plan and engaging the appropriate sales leadership when demand is less than planned or when demand exceeds supply.

The sales organization comes to rely upon the Demand Controller to provide an alert that customers are not buying as planned.

When “undersells” compared to the demand plan look like they are materializing, an early warning can mobilize the sales representatives and account managers into action. This is one reason why an effective Demand Control process contributes to increased sales revenue.

> *“One aim of the Demand Control process is to say ‘yes’ to demand, if at all practical. This is a change in behavior for the Supply Planning function, which might not be accustomed to identifying ways to say ‘yes’ to demand rather than to automatically rejecting unplanned orders...”*

EFFECTIVE DEMAND CONTROL INCREASES FLEXIBILITY AND RESPONSE TO CUSTOMERS

An undervalued aspect of an effective Demand Control process is the collaboration that is created between the sales organization, the Demand Planning function, and the Supply Planning function. One aim of the Demand Control process is to say “yes” to demand, if at all practical. This is a change in behavior for the Supply Planning function, which might not be accustomed to identifying ways to say “yes” to demand rather than automatically rejecting unplanned orders because they were not included in the demand plan in the first place.

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 proactive is aided by the Demand Controller’s review of demand and anticipation that orders may exceed the demand plan. This situation triggers “what-if” and contingency discussions with the Supply Planners.

The discussions often are not visible to the sales organization and to customers. The sales organization becomes accustomed to being able to rely upon the Demand Controller and Supply Planning team to be responsive to actual orders – even when the order volume or the demand itself was not in the demand plan. Customers appreciate working with a reliable supplier, which can become a differentiator in a company's value proposition to customers.

"Customers appreciate working with a reliable supplier, which can become a differentiator in a company's value proposition to customers."

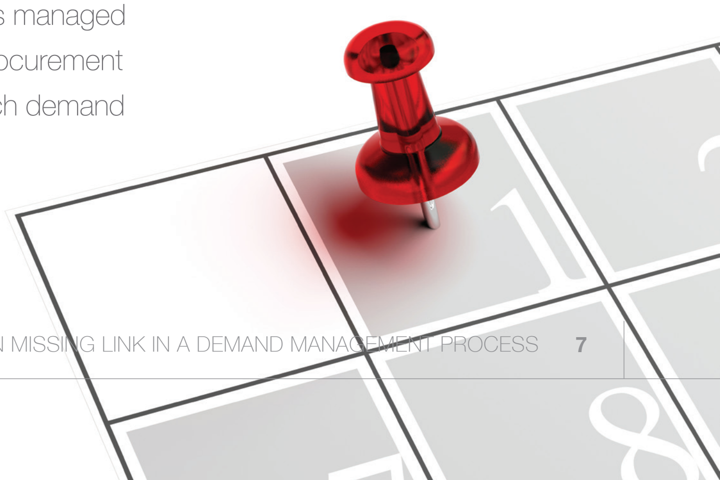
AGREEING UPON TIME FENCES IS ONE KEY TO SUCCESS

One key to establishing an effective Demand Control process is agreeing upon time fences, or decision points, within the planning horizon. By the way, best practice is a rolling planning horizon of 24 months minimum. Integrated Planning and Control is a detailed SKU-level planning process; Integrated Business Planning (also called Advanced Sales and Operations Planning) is an aggregate-level planning and management process. The 24-month rolling horizon is necessary for both levels of planning to synchronize effectively.

Companies typically establish three time fences or decision points: Future Planning Zone, Trading Zone, and Firm Zone (Figure 1). Here's an extreme case to illustrate the definition of time zones:

A winery, or winemaking facility, typically has long supply lead times. Once the grapes are culled off the vines, the company knows exactly how much wine they will produce and have available to sell in about two years. This is the typical processing time, from harvesting of the grapes to the bottling and distribution of the wine. In most industries and facilities, lead times are much shorter, frequently weeks or several months at the most.

Whatever the lead times, the best practice principle is that demand is managed to match supply in the time zones for production (Firm Zone) and procurement (Trading Zone). Beyond those lead times, supply is managed to match demand (the Future Planning Zone). Let's review each zone in greater detail.



The Firm Zone (red) is the most immediate time zone and often where the attention is focused. This is the stage where the final product (or service) comes together. In our winery example, the wine is bottled, labeled, and packaged during this stage. It's too late to make changes without incurring significant costs.

At this point, most of the value has been added to the product. Commitments for delivering the product have been made to customers. It also may be extremely difficult and costly to change the product configuration at this point to satisfy customer expectations. Making changes to demand in the Firm Zone may be possible but with undesirable effects and consequences.

The Trading Zone (yellow) offers a level of flexibility with respect to volume and product mix. In this zone, materials, components, and other purchases have been initiated to support the production plan that has been developed in response to the demand plan. Change typically can be facilitated at this phase with fewer consequences than making changes in the Firm Zone. While procurement costs may be impacted, value has not been added to the procured materials.

In our winery example, demand is limited because of the yield from the grape harvest. Demand may be allocated among the different brands to be produced. However, when demand changes within the Trading Zone, there is usually flexibility to change the product mix without too much difficulty and cost to meet market demand.

The Future Planning Zone (green) is beyond the current harvest and not limited to the output of the previous season's harvest. Demand can be unconstrained by supply capability, and the supply plan can be increased to match the demand plan, provided additional grapevines are planted and harvested and/or plans are made to purchase additional varieties of grapes to meet the plan.

The most effective way to align demand and supply in the Future Planning Zone is through Integrated Business Planning, an aggregate planning

Fig 1. Use of Time Fences or Decision Points

process for aligning all company functional plans and strategies, including procurement plans and strategies. In the Future Planning Zone, few or no commitments have been made, and extensive changes in volume, timing, and product mix can be made with minimal cost impact. As previously noted, the objective in the Future Planning Zone is to manage supply to meet the demand.

CULTURAL CHANGES THAT DEMAND CONTROL BRINGS

Cultural changes occur when a Demand Control process is in place. The information flow and communications are well defined. Those who need to know – and act – are involved. Fire drills to ensure that customers receive the product that has been ordered go away or are significantly minimized. This frees up people who are not accountable for Demand Control to perform their primary jobs.

An effective Demand Control process puts accountability where it should reside – in Sales Management's hands for executing the demand plan and determining the customer prioritization and actions that need to take place when actual orders materialize differently than planned. Likewise, the supply organization becomes more focused on executing the production and procurement plans and building flexibility into the supply chain.

A key performance measurement for Demand Control is the number of changes that occur within the Firm and Trading Zones – and why. Root cause analysis is performed to identify what changes need to be made to improve responsiveness to customers and better execute the demand and supply plans. When customers are unwilling or unable to provide sufficient lead time to fulfill their demand, the supply organization works to determine how to reduce lead times; the sales and demand planning organizations focus on how to better predict demand, including the timing of demand.

Here's another typical cultural change: The supply organization's primary role is NOT to second-guess the demand plan. As tempting as this might be, second-guessing the demand plan undermines the accountabilities that have been established and accepted; that is, Sales Management owns the demand plan. The key

"As the organization adapts to the Demand Control process, the Supply Chain team accepts that change is inevitable..."

objective of the supply team should be to do everything possible to align the supply plans to actual orders and the latest demand plan.

Second-guessing, as mentioned above, is tempting, given the very nature of the demand plan; that is, the demand plan will never be perfect. As the organization adapts to the Demand Control process, the Supply Chain team accepts that change is inevitable but rests more assured that someone is now accountable for the changes and, therefore, owns the consequences.

The customer service organization is also impacted by the Demand Control process. Rather than simply "taking orders," the customer service team is empowered to engage with the customer and to make additional inquiries as to their needs, requirements, and issues. The customer service team is pivotal in the communication process and now has timely access to demand and supply information and real-time revisions to schedules, deliveries, and other pertinent information.

This, in turn, enables the customer service team to proactively engage with the customers about their orders and plans. The Demand Control process also results in customer service representatives being given the authority to make certain decisions and commitments about orders, delivery dates, and other customer concerns within their level of expertise.

THE ROLE OF THE DEMAND CONTROLLER

The role of Demand Controller is typically new when companies initially implement a Demand Control process. The Demand Controller role consists of five primary elements:

- Order Management
- Management when demand exceeds supply
- Management when demand is materializing to be less than planned
- Decisions related to forecast consumption
- Facilitation of decision making when demand materializes differently than planned

Successfully executing the above-defined role requires a person who communicates well cross-functionally with Sales, Marketing, Demand Planning, and Supply Planning. The Demand Controller must also manage well up and down the organization and must be trusted by the aforementioned functional area leaders.

The Demand Controller must be comfortable working in the detail but also must keep the customer perspective and the company's well-being in mind. This is definitely a specialized role in a company that cannot be relegated to an administrative task.

THE BENEFITS OF A GOOD DEMAND CONTROL PROCESS

We have previously mentioned some of the benefits of a good Demand Control process – improved customer service, increased sales revenue, and being respected as a reliable supplier.

Bottom-line benefits are also experienced by many of our clients. For example, our experiences show that inventory reductions of as much as 25 percent and customer service improvement of a point or two will be reflected in a positive growth in revenue, operational, and other related parameters.

When companies implement a Demand Control process at the same time that they implement Integrated Business Planning, the realization of these benefits is accelerated. An additional benefit involves the transition of executive focus beyond solely near-term issues. The company's executive leaders can truly concentrate on the future — four months and beyond — and help ensure that the company has the resources to fulfill demand and grow the business.

ABOUT THE AUTHORS

David Holmes consults and educates companies in Demand Management and Integrated Business Planning. He has solid, multi-industry experience including automotive, fast moving consumer goods, and high-tech. As VP, Demand Management, with Research in Motion, he managed their demand planning processes while the business grew by a factor of 100-fold. He held key positions in DM and IBP at both SC Johnson and at Sara Lee – leading the co-managed inventory function at Wal-Mart, virtually eliminating stock-outs. David began his career with Rolls-Royce Bentley Motor Cars Ltd. and was actively involved in their Class A accreditation. He has held positions across all supply chain disciplines. David has a B Eng. (Hons) in manufacturing technology/management and an MBA.

Todd Ferguson assists companies overcome Supply Chain, Demand Management, and Integrated Business Planning challenges in a variety of industries. Clients include energy leader, FMC Technologies, and global building materials provider, Saint-Gobain. Todd's most recent experience includes the implementation of a Demand Management function for an upstream oil and gas market leader, helping to define and continuously improve the company's Integrated Business Planning process. He was directly involved in the design and implementation of an SAP demand planning solution for an international medical device manufacturer ,leading a cross-functional team in the development of a global Sales & Operations Planning process. He holds a BA (Economics) from the University of British Columbia.

Timm Reiher, an expert in Demand Management and Integrated Business Planning, has more than 20 years of experience, with a background in product management, sales and account management, customer service, data warehouse systems, and customer relationship management improvement initiatives. As a team leader for Integrated Business Planning at ATMI, Timm managed the successful design and implementation of the Demand Management process across multiple business units working with global operations in North America, Europe, and Asia. He then served as demand manager for five years, developing and training the team and leading cross-functional business unit sales and marketing leaders to achieve Class A performance. He earned a BS in electrical engineering at Kansas State.

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