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OLIVER WIGHT PAPER series

Relationships

The Key to Effective Demand Planning in a Business-To-Business Environment

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Collaboration Beats Guessing

As a prelude to this white paper, let me share a few fundamental principles:

- You should not have to forecast that which is already known.
- Collaboration is better than guessing.
- Improved customer/supplier relationships with timely, trustworthy communication enable improved customer service and lower supply chain costs.
- Pareto still is alive and well in most companies. i.e. 70 to 80% of a company's volume comes from 20 to 30% of it customers.
- Focusing on the key customers goes a long way to supporting growth and financial objectives.

In order to achieve growth goals and improve operating results, a company in a business-to-business environment is constantly trying to lower its costs to meet customer price and cost reduction mandates and to increase its competitive edge to help enable growth. One of the important capabilities a company in this position must have is a robust demand planning process.

Armed with Pareto's 80/20 rule, a company has an opportunity to collaborate with its key customers to help improve its forecast accuracy. Fortunately in a business-to-business (B2B) environment a company's sales organization will most likely have account managers assigned by major accounts.

The account managers in leading companies are responsible not only for sales from those major accounts, but also for building and strengthening relationships with those accounts. Their primary task is, or should be, to manage the relationships with agreed-upon key accounts.

In a business-to-business environment, especially with production customers, a salesperson is often selling a product where volume is dependent upon the customer's customer demand. The supplier's demand will vary as the demand of the customer varies, with some additional demand variations as a result of changes to customer-ordering policies and inventory practices or targets.

The salesperson's objectives for a specific account are often stated in "customer share" or "customer penetration," since the account manager most often cannot directly affect the customer's demand from his or her customer's customers. This is not necessarily true in fast-moving consumer goods products, where a push-pull marketing strategy is often used to stimulate consumer demand with the supplier supporting retail customers with products to sell to consumers.

In a strong relationship between a customer and a supplier (trading partners), there will be sharing of information to enable the supplier to be prepared to supply product on time, as needed, at lower costs.

Unfortunately, we often find that these supposedly strong relationships do not actually exist. This is especially true if the primary contacts between the two trading partners are limited to the customer's purchasing organization and the supplier's selling organization. Almost always, the supplier finds itself in

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Poor Forecasts Are Often Symptoms of Poor Customer – Supplier Relationships.

Not too long ago, I was teaching a private class on demand planning. One subject in the class was collaboration. To illustrate the potential of trading partner collaboration, I used a personal example of a company I worked with that prides itself on its ability to collaborate with trading partners.

The client company's vice president of sales stopped me during the class and said, "That company is a customer of ours, and if they are your example of a good trading partner, then we shouldn't have anything to do with this demand planning and collaborative planning process you are touting! They are one of our worst customers."

I preferred not to have this conversation in front of a large group, but I proceeded to share that there is a prerequisite to collaborative planning. Companies that establish true trading partnership-type relationships recognize that they can only manage a limited number of relationships. Done well, trading partner collaboration requires developing relationships and implementing improvements, which takes resources and time.

My message to the vice president of sales was that if he was getting surprised positively and negatively by this "worst" customer, he most likely was not on the customer's list of key suppliers. He should be thankful that he was getting any business at all. Further, if he wanted a good customer, then he, as the head of Sales, needed to improve the company's strategic selling skills and should set a goal to get on the customer's list of key suppliers.

To cut a long story short, he took the advice to heart and built a strategic selling plan involving multiple functions and levels of management in his company as part of the selling effort. Today, the company is on the list of key suppliers and is using the principles of Collaborative Planning, Forecasting, and Replenishment. The company has increased both volume and profits from this "worst" customer while minimizing "surprises."

a value proposition that is heavily based upon low price to win the business.

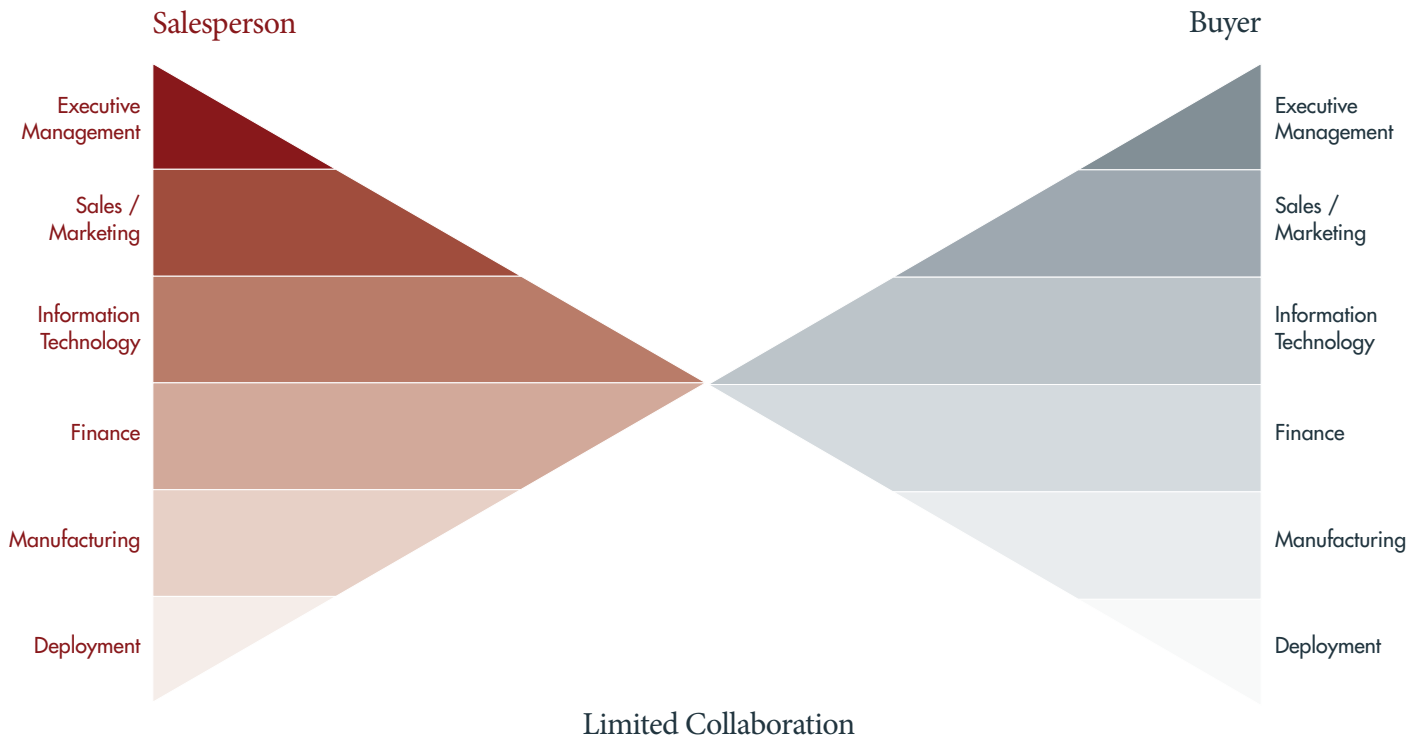
Conversely, if there is a relationship at many organizational levels and many functions between the companies, the value proposition includes benefits received from collaboration between the trading partners. These benefits come in product design improvements, product cost, total delivered cost, total cost of ownership, quality, supply chain effectiveness and efficiencies, shared business and marketing strategy and more.

In the "bow-tie" in Figure 1 (also known as the "butterfly" model), the primary, and sometimes only, relationships are between the sales person and the buyer. Significant opportunities for both the supplier and the customer are missed in limited buyer-salesperson relationships.

In the "diamond" model, emphasis is on the importance of functional and leadership relationships between two trading partners necessary for a truly robust relationship (see Figure 2).

The role of a sales account manager can be significantly different in a strong collaborative, relationship model. Instead of working mostly to book orders, the salesperson serves as a "quarterback,"

Figure 1. Trading partner connection points when collaboration is limited



managing the relationship between the trading partners. He or she is selling the companies — both companies — on the value of the relationship. The account manager is also constantly striving to find areas for process or design improvements. Instead of selling the supplier's product, they are selling the process by which the trading partners do business, and the account manager is continuously striving for improved performance for both trading partners.

This collaborative business model requires different selling skills than may be present in a supplier's traditional sales force. This collaborative model also requires different skills than are typically found in the customer's purchasing organization. The objectives of both the account manager and the purchasing manager, in a truly collaborative relationship, are to continually orchestrate "win-win" opportunities between the two companies.

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Figure 2. Trading partner connection points with strong collaboration

This collaborative business model requires different selling skills than may be present in a supplier's traditional sales force.

Let me share a personal experience of a key supplier to my previous company, Bently Nevada Corporation, which is now a part of General Electric. At the time, some years ago, Bently Nevada offered a variety of products, services, and systems. Included in this offering were products manufactured by Bently Nevada and products made specifically for Bently Nevada by external suppliers. One of the key suppliers was Hewlett-Packard (HP).

HP had formal integrated planning and control systems (Manufacturing Resource Planning Systems), as did Bently Nevada. A properly-functioning planning and control system has an output of quantitative requirements by supplier, time phased into the future, updated daily or weekly, that serves as the primary communication between the customer and the supplier supply chain organizations.

Thus, every week Bently Nevada provided HP its time-phased requirements by part number for each week, 52 weeks into the future. Since Bently Nevada and HP knew the demand for our products would change week to week, collaborative tactics were agreed upon to manage the change between the two trading partners. The tactics included inventory, lead times, schedule stability, etc.

HP, in theory, did not have to forecast the Bently Nevada business nor, in theory, did the HP salesman have to call on Bently Nevada except to get information on new products, until it was time for contract renegotiation, which usually occurred annually or biannually.

Here is the key point: The HP salesperson/ account manager regularly and routinely visited Bently Nevada. He regularly and routinely brought in HP executives from different functions and different organizational levels. He also orchestrated an annual executive afternoon and evening with dinner between the two collaborating trading partners' executive teams.

Why would the salesperson do that? First and foremost, he wanted to maintain a relationship between the two firms based on more than simply product specifications

The Value of Collaboration

When Collaborative Planning, Forecasting, and Replenishment (CPFR®) efforts are started, they should begin with a Joint Collaborative Workshop that is conducted between the two trading partners. During the workshop, a Front End Arrangement is developed that defines and formally documents how the collaboration process will work. The Front End Arrangement documents the information that will be shared and the points of collaboration. It defines the Key Performance Indicators. It also, most importantly, defines the objectives of the trading partner collaboration effort.

Following are some of the key objectives:

- *Improve the relationship for a Win/Win partnership.*
- *Improve forecast accuracy, by an agreed to percentage.*
- *On average we see forecasts improve by 20%-30%.*
- *Reduce inventory by an agreed to days of supply.*
  - » *We find this to range from 20%-30%.*
- *Improve customer service – on time in full.*
  - » *Goal is to be better than 95% or in some cases 98%.*
- *Lower logistics costs*
  - » *Reduce emergency order expediting.*
  - » *Improve order fulfillment efficiency with full truck loads.*
  - » *We find this can range from 5%-10%, however for some companies this benefit is significantly larger.*
- *Reduce "Fire Fighting".*
  - » *Because of the greater visibility of information, we find companies to be more proactive and less reactive.*
  - » *Mistakes are identified before they do significant damage.*
  - » *The financial benefit? "Priceless"*

The CPFR objectives typically are different for each company and partnership. We have seen partnerships start with a list of more than 25 defined objectives. We encourage companies to collaborate, agreeing to less than 10 key objectives. Whatever the objectives, they should be mutually agreed upon and documented.

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...the last person to find out about changes to product volumes or specifications, or changes to the customer's product marketing strategy is often the customer's buyer in the purchasing organization.

and price. He wanted to make sure that HP was firmly in the mind of our design and application engineers. He wanted to make sure that HP did not miss a new product opportunity or a chance to increase penetration with this key customer. He wanted both companies' supply organizations to work together to supply product on time at lower costs. He also wanted to know how the HP products were being accepted by Bently Nevada's customers in the marketplace.

As an HP salesperson, he was responsible for forecasting the Bently Nevada demand for HP's demand planning and Sales and Operations Planning processes. He knew that the last person to find out about changes to product volumes or specifications, or changes to the customer's product marketing strategy is often the customer's buyer in the purchasing organization. So, even though HP got our best view of requirements every week, this view often did not reflect all that we were working on, with some anticipated changes not yet reflected in the purchasing plan.

As a result, the HP salesman regularly and routinely called on Bently Nevada's purchasing group to ensure any order, quality, or delivery issues were being addressed. Any significant changes to forecasted demand were also discussed. He also met with the supply chain planning organization to understand what was happening that might affect the demand from HP's perspective. He met

with engineering to review projects currently in work and anticipated — early in the stage and gate process. He met with the demand managers and marketing managers. And, he periodically met with me in my role as Vice President of Sales and Marketing just to make sure to strengthen the relationship and to determine if there were any significant strategic changes in the works.

When he visited the headquarters of Bently Nevada, he had his own Bently Nevada badge that allowed him access to most of the locations and departments within the company.

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One objective of this white paper is simply to point out that I frequently find that salespeople in the role of account manager often do not understand their proper role. The salesperson's job is to represent the supplier company to the customer — and to represent the customer to the supplier company.

To perform that role well requires a mindset that a good salesperson knows everything significant happening within the customer's organization. And the salesperson uses that information through his or her own company's demand planning process to provide quality information for business and supply chain planning and to improve the company's value proposition for the customer.

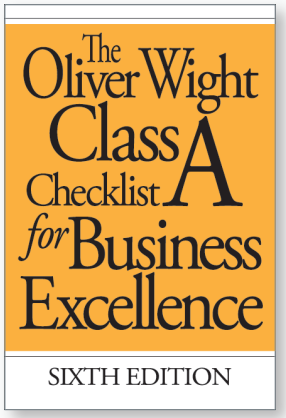
FOLLOWING ARE A COUPLE OF FINAL PRINCIPLES FOR YOUR CONSIDERATION:

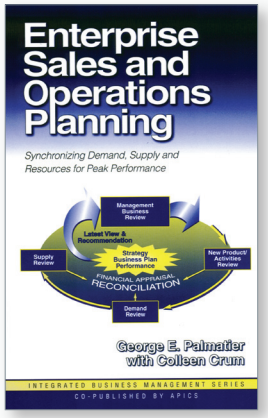
- From Ron Ireland, author of the book, *Supply Chain Collaboration:* "The basic principle says that if we could create a more accurate forecast of demand, and actually execute replenishment and supply chain optimization opportunities using this more accurate demand forecast, then we could take costs out of the entire value chain -- and at the same time, grow revenue; nothing more than plain old common sense."
- Poor forecasts are often symptoms of poor customer – supplier relationships.

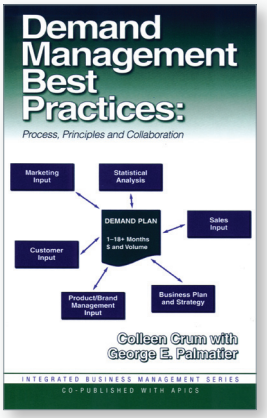
There is an established industry methodology to define, implement, and control effective collaboration. That is CPFR, Collaborative Planning, Forecasting, and Replenishment. I encourage you to read *Supply Chain Collaboration* by Ron Ireland with Colleen Crum. The book describes this process plus provides more insight into establishing robust trading partner relationships.

Suggested Reading

Oliver Wight Authors - Thought Leadership







ABOUT THE AUTHOR

George Palmatier, Oliver Wight Principal, has assisted many companies that make everything from soup to satellites in implementing integrated management processes. He is recognized as an expert on Sales & Operations Planning, Integrated Business Planning and demand management as well as ERP, Integrated Supply Chain Management, and Integrated Product Development (IPD). George works with clients to formalize and integrate their strategic plans into an integrated business management process, Integrated Business Planning. With twenty years of experience in sales, marketing, strategic planning, and general management, George has a thorough knowledge of how to achieve sustained results improving business performance. During his 11 years as vice-president of sales and marketing at Bently Nevada Corporation (now part of General Electric), George was responsible for bringing the sales and marketing departments into an integrated business management process. Bently Nevada was one of the pioneers in developing and implementing Sales & Operations Planning using it in a truly integrated management process. George has authored or co-authored four books: *The Marketing Edge, Enterprise Sales and Operations Planning, Demand Management Best Practices*, and *The Transition from Sales and Operations Planning to Integrated Business Planning.*

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