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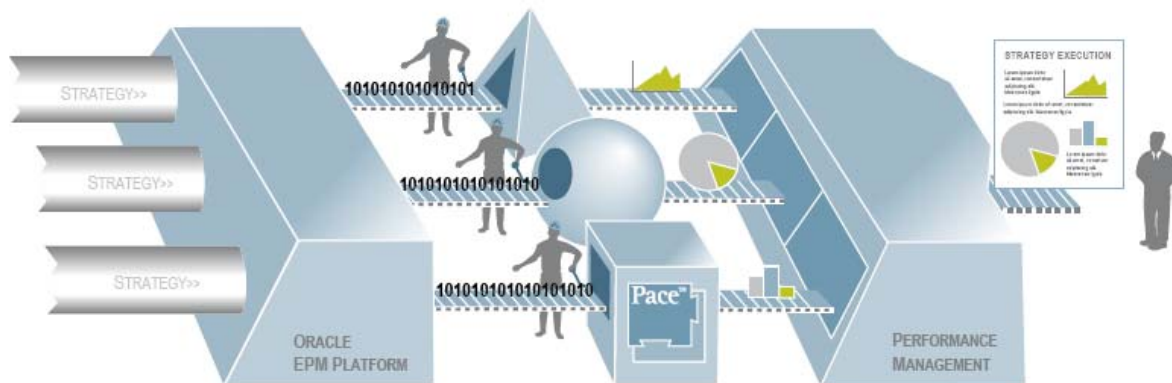
Executing Strategy

The Industrialization of Corporate Planning Rise of the “Planning Factory”

By Dean Tarpley, Palladium Group, Inc.

One simple definition of the Industrial Revolution is “the application of power driven machinery to manufacturing.” Manufacturing, or the use of tools and labor to make things for use or sale, is a term not typically applied to corporate planning. Although plans are merely documents, which may or may not be printed, they are arguably the most important assets a company possesses. Corporate plans – from strategic to operational - are the internally used products that most influence a company’s ultimate success. Behind these internal products are processes not unlike those in a traditional manufacturing plant – many people working in different job streams, assembling components that ultimately must integrate into a holistic corporate plan – the end product that when used appropriately ensures strategy execution.

FIGURE 1: The Planning Factory



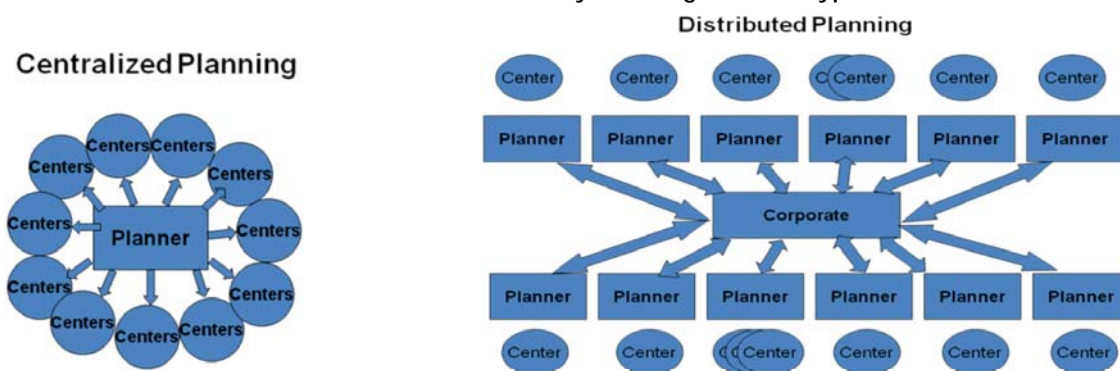
Often the corporate plan is not viewed as an integrated end product like the one depicted above. Each type of plan – the strategic plan, the annual budget, the short term forecast, etc. is considered a separate product. In some organizations, each department’s version of each of these plans, such as the sales forecast versus the financial forecast, is also seen as a different product. Executives and managers typically agree philosophically that corporate plans should be integrated, both across departments and plan types. Part of the reason for the actual plan differentiation, however, is the inability of companies to orchestrate the planning processes like a more traditional production line. Managers use different tools, disjointed data sets, and have little understanding of the linkages between their various components of the overall plan product.

Technological innovation was the heart of the industrial revolution and the key enabling technology was the invention and improvement of the steam engine. The steam engine was able to apply its power to a myriad of job functions and automate them, allowing repetitive tasks to be efficiently automated and maintaining human intervention only when necessary to the manufacturing process. In order for corporate planning to be likewise industrialized, a “planning engine” must be leveraged that, like the steam engine, can automate the various repetitive functions used in corporate planning processes. In most companies today, there is a different “engine” applied for each type of planning function and its specific purpose. For example, one planning tool may be used to consolidate a financial plan, and a completely different tool is used for daily sales forecasting. If different engines were required for each such process in a traditional manufacturing plant, it would be cost prohibitive to create the end product, and manual labor would probably still be used for assembly. Likewise, when a different planning tool is used for each of the corporate plan components, either manual labor is used to create the integrated corporate plan (the “product”) in Excel, or the integrated corporate plan is never created at all. Most often, the company’s plans are simply not integrated.

A Planning Process Classification

Planning processes can be grouped into two major categories: centralized and decentralized. While both processes may leverage some of the same tasks, they are very different in their structure. A “centralized” planning process is one where a single planner is creating plans for many (greater than 5) centers, most often for a group of related or interdependent accounts. These centers could be product lines, stores, sales people, or various other planned items or locations. The critical differentiator is one planner to many centers. Contrastingly, a decentralized planning process has one planner creating the plan for a single or few centers (less than 5), often for all of that center’s accounts. Most headquarter planning processes are decentralized, with each department head planning their department(s) for most accounts.

FIGURE 2 – Two Primary Planning Process Types

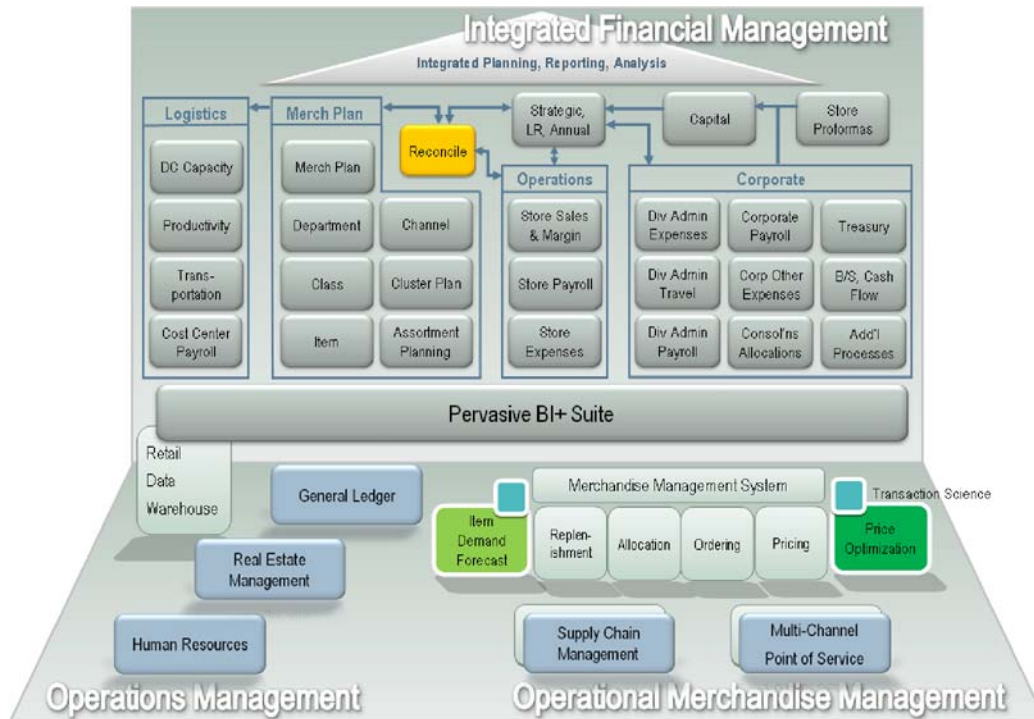


Once these two distinct planning process types are identified and defined, it is easy to begin understanding why separate tools have historically been used.

- Distributed planning requires thin client interfaces; centralized planning requires more functionality for modeling. It is more difficult to develop for a thin client, and therefore thin client interfaces typically have more limited functionality
- Centralized planning will often leverage many center views. When multiple accounts are planned, high level targets will often be mathematically allocated across the many centers based on their characteristics, historical performance, or previous plans. Users will then review the allocations for the centers and model exceptions. Distributed planning usually features many account, one center views. While both require modeling, it is of a very different nature.
- Calculations for distributed planning are often isolated to one center, allowing them to process quickly but postponing aggregation of centers. Centralized planning calculations require aggregation across centers interactively for modeling, as well as more complex allocations to consider both planned measure dependencies and center characteristics
- In a distributed planning environment, business rules can be leveraged to show the relationship between accounts. For the centralized planner, however, it is often necessary to apply a business rule for most centers, but then override specific center/time combinations and re-distribute changes across the others. This type of flexible back-solving is unique.

To summarize, distributed planning encompasses the more “traditional” financial planning process, and is the process type typically supported by a general “planning” software application. Centralized planning is more often not supported at all, or supported through a “specialty” planning application, such as a merchandise planning tool. An example of integrated planning for a retail company is depicted in Figure 3. While not comprehensive of the organization’s planning processes (supply chain and other areas are excluded), this slice of the framework is large enough to depict how both planning process types must interact within the same company.

FIGURE 3 – Integrated Planning Framework Example



While most headquarter planning processes are decentralized (depicted in pink in Figure 3), some are not. Not surprisingly, the balance sheet and cash flow plans are typically not supported by the corporate planning tool and are often done in Excel or a special tool for that purpose. All of the merchandising and field planning processes are centralized (depicted in blue in Figure 3) for this and most retailers. These plans, however, must come together to create one comprehensive annual plan. In many companies, the integration occurs only at the top level, eliminating many integration points that should, but don’t, occur at lower levels. In the example above, the reconciliation between merchandise and operations plans is one of those integration points that many retailers simply cannot accomplish.

Degrees of Planning Integration

At the highest level, all companies must combine their plans into one for executive reporting. This integration, however, occurs at various levels and to different degrees. In the most disjointed organizations, plans do not truly integrate at all, and top level numbers are compiled from the plans manually into one, typically leveraging Excel. In the most sophisticated examples, plan data, the planning platform, planning processes, and the plans themselves are integrated across both functional areas and plan types.

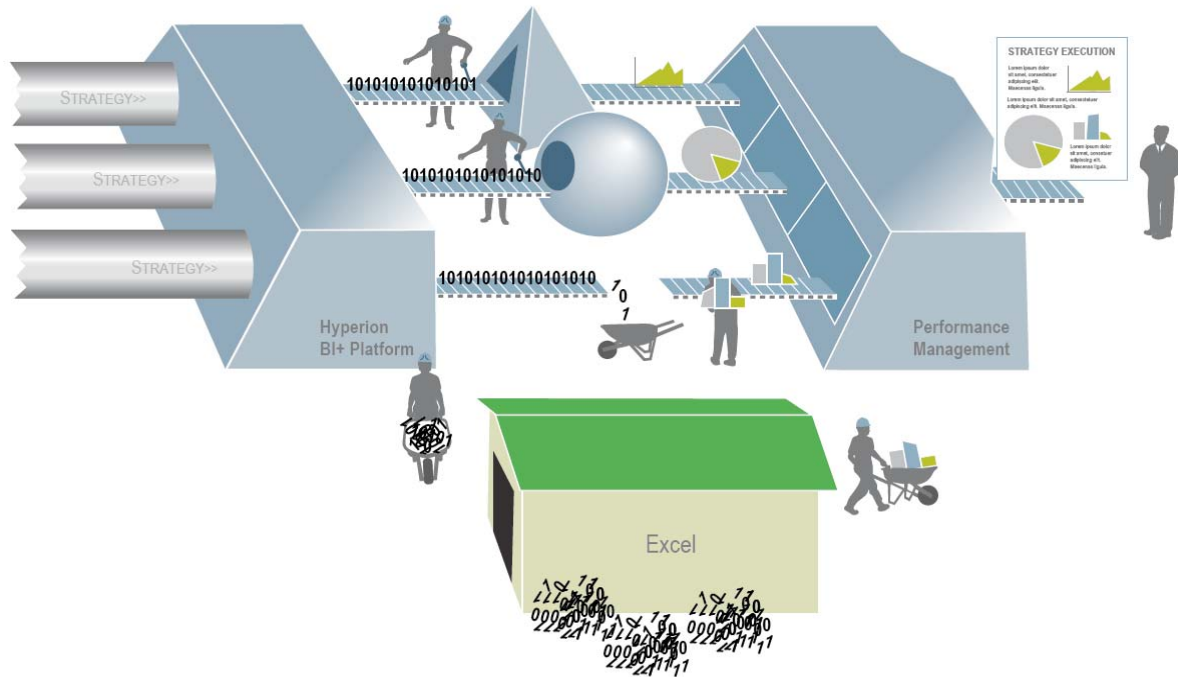
1. Plan Data Integration

At the core of every planning process are actual performance results that are leveraged to project into the future. While there are cases of zero based budgeting, most often past performance is at least considered when creating future plans. In addition, plans are stored somewhere to ultimately compare them to actual performance. The first level of planning integration is the integration of both plan data and the actual performance data that corresponds to the plan. Surprisingly, in most organizations this data is redundant and disconnected across plans. For example, the person responsible for long range planning may keep a ten year rolling history of the top five accounts at the company level on an annual basis in a spreadsheet, and project these same accounts for five years in the future. While this long range planner may examine more detailed plans from other areas, their data is completely separate from the data others may be using to create the annual plan. Returning to our retail example in Figure 3, it is often found that merchandise plan and performance data, held at the product/company level, is completely separate from store operational plan and performance data, held at the store level for all products. Fundamentally, before planning platforms and processes can be integrated, the underlying data must be integrated. This data integration is also beneficial to provide consistent reporting and dashboards across the organization.

2. Planning Platform Integration

Although planning processes may require unique tools or business rules, integration of the planning platform is necessary to begin the synchronization of planning processes as described in the manufacturing analogy. In an optimal environment, task appropriate tools are leveraged against a common database platform and calculation engine. This type of common platform supports the timely process integration required, much like a conveyor belt connects the various processes in a traditional manufacturing line. While it is possible to orchestrate the processes without a common platform, it is extremely difficult, inefficient, and typically adds too much time and complexity to the integrated process to be feasible. Essentially, without the common platform a break is created in the conveyor belt that is manually accommodated through Excel, or that prevents the integration of the plans completely.

FIGURE 4: The Planning Factory without Adequate Platform Integration



It is critical when evaluating any planning platform that a comprehensive planning needs analysis is conducted across the organization, to prevent process breaks due to inadequate technology support.

3. Planning Process Integration

The final degree is the integration of planning processes themselves, and the true creation of the industrialized planning factory, which results in an integrated corporate plan product. In the industrialized planning factory, a change made in one plan is propagated to all related plans, regardless of type and functional area. For example, if a new product line is added, merchant projections will carry through to operations and financial plans seamlessly, with the entire organization realizing the impact of the change and adjusting their plans accordingly in real time. Once the planning factory is industrialized, companies recognize more efficient management that improves performance results, strategic decision-making, and ultimately strategy execution.

Break-Through Results Experienced Through the Integrated Planning Vision

Companies that have embarked on the path that leads to enterprise wide Integrated Planning typically experience break-through results even in the earliest stages of the journey. The payoffs for a company adopting an enterprise wide Integrated Planning roadmap can be substantial.

A Global Retailer:

- Achieved record breaking sales in its internet channel business and a 5% increase in year over year store based revenues.
- Reduced planning cycle time by over 50% through process redesign, automation, information sharing and data visibility enabled by the Integrated Planning design.
- Redirected over \$20 million in purchases to high performance, high yield products delivering year over year financial improvements.
- Acquired the ability to re-state plans and projected results to stakeholders within 24 hours after any meaningful event that has the potential to impact business.

Old disconnected planning processes, in this organization, required weeks to re-assess and to report the impact of regional political and economic changes. The integrated planning environment now provides the key to being able to react to change at the speed of thought.

Such results are made possible by this company's commitment to an integrated planning process strategy that includes the integration of plan data enabled by a common and integrated planning platform.

A Major CPG Distributor:

- Launched a Global Financial Planning & Reporting initiative (FPAR) providing global enterprise wide visibility to key financial decisions enabling the successful acquisition of a multi-billion dollar key competitor.
- Decreased budgeting cycle time by over 30% with the implementation of an integrated planning system.
- Enabled complex Ad-Hoc business modeling to measure sales impacts at all levels and all parts of the organization allowing extensive "what-if" analysis without modifying data used by others.
- Enabled financial planning and analysis in a consolidated system, providing a single repository for financial data.
- Delivered product profitability analysis to allow budget and visibility to product profitability at the most granular levels of detail.
- Facilitated consistent methods of planning across the enterprise, including acquired companies, ensuring consistent tools and process for each division and subsidiary company to plan.

Integrated Planning represents the next frontier in business performance gains. Companies, such as this CPG Distributor, that adopt an integrated planning vision are quick to recognize the revolutionary productivity gains that are delivered through the superior resource allocation that is achieved with true integrated planning. Corporate performance gains of the magnitude experienced by these companies are only made possible by planning processes and technology integrated on a common platform.

Summary

By comparing corporate planning processes to those in a manufacturing facility, and recognizing that an integrated corporate plan is a critical resultant product, a company can begin to work towards improved strategy execution through integrated planning and performance management. Once this goal is targeted, the “planning factory” can be “industrialized” by the development of a unified data source, use of a common planning platform, and ultimately the orchestration of planning processes, both centralized and decentralized, across departments and plan types.

About the Author

Dean Tarpley is Senior Vice President, Retail within Palladium's Application Development Group. His career spans almost 25 years within the Retail and Corporate Performance Management space. Previously, Dean has served in corporate, operations and merchandise planning roles at Blockbuster and Zale Corporation; in addition to entrepreneurial experience founding numerous small retail businesses. Dean has led the development and deployment of enterprise-wide store-level planning and merchandise planning systems. Prior to his current position, Dean has had held a variety of roles at Palladium including Vertical Lead for the Retail Practice. Dean has a Finance degree from the University of Texas at Arlington.