

Welcome to the RA Stahl Company Executive S&OP Newsletter

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Bob Stahl

A New World

Hello again.

This Newsletter is a bit long, but I've tried to make it substantive and helpful.

In my last newsletter (April 2020), at the beginning of our dealing with the Covid19 virus, I discussed "The Silver Lining." While things at that time looked encouraging, we have struggled with our societal recovery for a number of reasons, but our economic recovery is stronger than anticipated.

With so much uncertainty now about the virus and what comes next with regard to the recovery of our society and our overall health, what we can all agree on is that we need a unified mindset to deal with and manage our future. But, that's a political issue, not the subject of my focus nor these newsletters.

One thing that we can be sure of, however, is that the bright economic future will be different than the past - **A New World**. These changes represent a real challenge to our company's forecasting efforts. In 2001, Tom Wallace and I wrote a book called - [*Sales Forecasting - A New Approach*](#).

In that book we emphasized that when addressing the full planning horizon (18-36 months), it should NOT be done with full granularity (by SKU, by customer, by warehouse), but rather by Market-Facing *volumetric* families. Using the full granular approach is like trying to live in the *Suicide Quadrant* - discussed on pages 104 to 107. Since then, we've also come to realize that the focus of our volumetric forecasting effort needs to be done through multiple lenses. That is, seeing the future in a **Multiple-View** approach. Specifically, seeing the future in three independent perspectives:

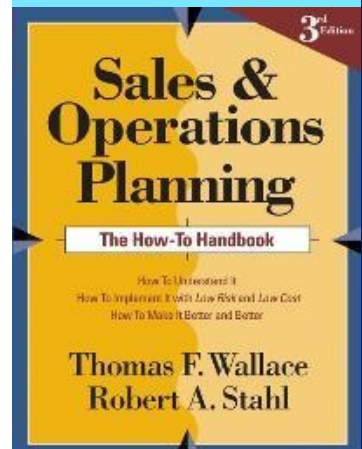
- A Marketing View
- A Customer View
- A Modeled View



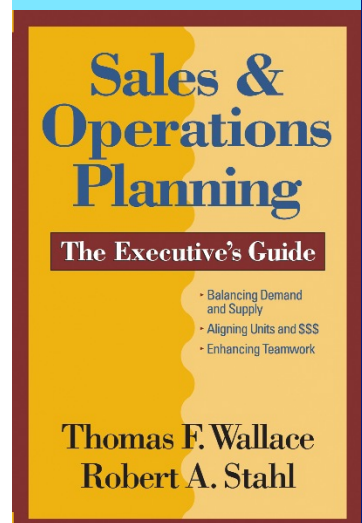
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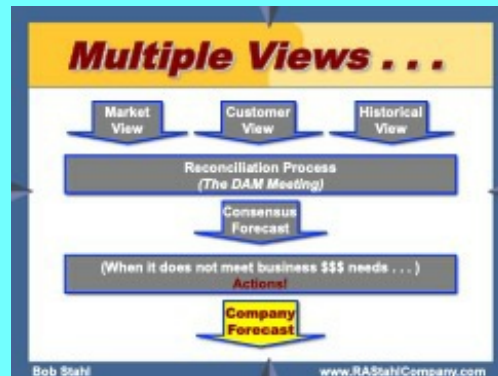


BULLETS from BOB

Multiple View Forecasting

If your forecasting practice continues to be heavily based on statistical modeling by SKU, built upon mathematical calculations and assumptions using historical fully granular data, you may have a faulty projection of the future - even if you add it up into families. It ignores market trends, leading indicators, and customer input. With the disruption to today's markets due to the COVID-19 virus, history alone is likely not the best indicator of the future.

Without question, modeling is ONE very important component of predicting the future, but it's not the only element, particularly today. Using a *Multiple View Approach* to forecasting has



become an imperative. More specifically, it must include a:

- **A Market View**- this is typically expressed by Market-Facing families, which can be correlated to leading market indicators. It serves to look beyond the customers to the markets, and thereby it is not limited by the customers' knowledge, bias, or shortcomings. This market perspective is used as one input to the company's volumetric forecast.
- **A Customer View**- typically expressed in SKU's (end items) or orders by customer, by location indicating what each customer will need for the next three to six months. In some cases it's the customer's schedule, and in others it's the company's forecast of what they think their customers will need -- or some combination of the two. This information is used primarily as input to the Master Scheduling practice. Aggregated into the Market-Facing Families, it is a second input to developing the company's volumetric forecast.
- **A Historical (Statistical) Modeled View**- this projects the company's history and markets by a mathematical model into the future. This modeling projects the aggregate Market-Facing Families for the volumetric planning horizon. A technique called "Focus Forecasting" (fitted forecast) is typically used. This modeled future reflects the past, based on

statistical trends and patterns that can be observed and modeled. It is an input to the company's volumetric forecast, not a forecast in itself.

A note: There may be other "views" that come to play, such as, brand view, channel view, etc.

Reconciling These Various Views

Each of these views is likely to be quite different - having individual credibility, because they are based on different perspectives. Sometimes one or more of these may have greater credibility or weight than another. Reconciling them into a single view is a *human activity*. This is necessary to get all functional departments operating from the same set of demand numbers. The objective is to develop a "Consensus Forecast" that is *reasoned, reasonable, credible, and fully transparent*.

Step #2 of the monthly executive S&OP process is known as Demand Planning, where volumetric forecasting by Market-Facing Family is performed. Reconciliation of the above multiple views into a Consensus Forecast is the final activity of that step.

This reconciliation activity step is sometimes called the *Demand Agreement Meeting* (or the DAM Meeting for short?). Although conceptually simple, this is not an easy meeting to run, because it brings into sharp focus the potentially divergent views of **sales** (the customer view), **marketing** (the market view), **new product, supply chain,** and **finance**, people into sharp conflict. This summary meeting needs to include executive representatives from each discipline on the demand side of the business.

Supported by data, the objective of this meeting is to expose disagreement without being disagreeable, arriving at one set of demand numbers by which to run the business. This becomes the *Consensus Forecast* that is used for *Supply Planning*.

Remediating Actions

Once reconciliation has been achieved, there is one activity left to do: Compare the *Consensus Forecast*, converted to revenue, to the "last call" to the Annual Business Plan.

If the Consensus Forecast compares unfavorably to the last call, appropriate actions are then identified to bring the forecast or the last call to where it needs to be. These actions are documented, with progress being tracked in future months.

Conclusion

The best view of the future comes from blending multiple views into one set of demand numbers, called the *Consensus Forecast*. This open disagreement and reconciliation should happen routinely as part of the executive S&OP process, and has become best practice. In the words of one S&OP Manager, "...because each input has strengths and weaknesses, having all views brought to the table brings about more educated and better forecasts. Typically...the more initial disagreement, the better the forecast."

A Client Visualization Example

Below is a detailed example of one of my client company's visualization of their effort. Yours will not be exactly like this one, but the first step in changing your forecasting process, before getting into numbers, is to get an agreement in principle with a similar visualization. This gets everyone on the "same page."

If you want more specific information, you can refer to any of our S&OP books, or go to [my website](#) where there is a plethora of downloadable information.



Related Resources

- **[A CEO's Perspective on S&OP and Forecasting by Phil Dolci](#)**
- **[Getting Sales & Marketing on Board with S&OP](#)**

For more insights about eS&OP, refer to my website for free downloads and/or get one or more of our books at:

www.RAStahlCompany.com



Note: If you have any questions or comments, please don't hesitate to contact me:

508-226-0477

RStahlSr@aol.com

www.RAStahlCompany.com

Bob Stahl has spent 48 plus years as a practitioner and counsel to manufacturing companies. He is a teacher, a writer, and eS&OP Executive Coach. He has co-authored six books including *Sales & Operations Planning: The How To Handbook 3rd Edition* and *Sales & Operation Planning: The Executive's Guide*. Three of his books have been used for professional certification and several have been translated into seven different languages throughout the world. Bob is a past S&OP editor for the International Institute of Forecasters (IIF) *Foresight Journal*.