

RA Stahl Company

Executive S&OP Newsletter

September 2015

Issue: 1

Welcome to RA Stahl Company

www.RAStahlCompany.com

A HAPPY ENDING . . . NOT YET!

There is no one in this field that will miss Tom Wallace more than I will. He has been a long-term friend, colleague, and writing partner. I've learned more from Tom, than I can likely recall. He is perhaps the "best writer on the planet," but my learning's are much more than in writing skills.

I first met Tom in 1981 when we were both Oliver Wight Associates. During the years that followed, I taught many classes with Tom, collaborated in almost everything that I did, have written six books on executive S&OP (eS&OP), and have shared marked accomplishment in this field. As I look forward without Tom, I know I will miss him dearly with his unique contributions to this field, and to me as a professional. God speed, Tom Wallace.

I know that one day I will follow in Tom's path to "retirement," but that day is NOT YET! I still have much energy and enthusiasm to help guide/coach companies to making eS&OP all that it is capable of being. With the help of virtual communications on the Internet, I plan on remaining active as long as I can because I am having fun.

I will continue to periodically publish "Bullets from Bob" in an effort to keep people interested in the continuing evolution of eS&OP. Remember . . . "We always reserve the right to be smarter tomorrow than we are today, and not have to apologize for that." I will do my best to keep these Bullets on the leading edge of best practice eS&OP.

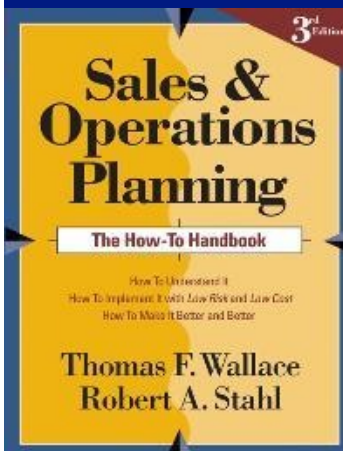


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BULLETS FROM BOB

Demand Planning: A Three-Legged Stool

During these turbulent and unpredictable times, forecasting is less

fun than ever! But forecast we must, if we are to manage our companies well. The question is, "how to do it as best we can?"

Remember the story of three blind people exploring an elephant - one discovered a rope (the tail), one a hose (the trunk), and one a wall (the side). It was not until they shared & compared their views that the presence of an elephant became apparent - no single view was sufficient.

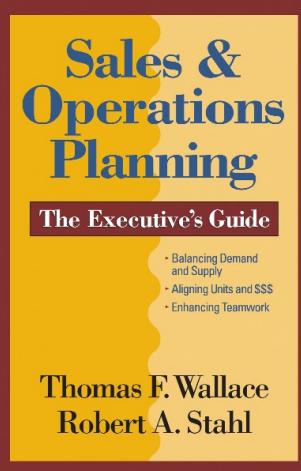
Forecasting is much the same way. People in different places in the organization have different views about the future. Each is credible in its own way, but no one view tells the whole story. We might describe these three views as follows:

1. **Market View** - this is expressed by Market-Facing Families, correlated to leading market indicators, projecting the company's volume for the next eighteen to thirty-six months. This correlation is from either mathematical regression and/or anecdotal correlation. It serves to look beyond the customers to the markets they serve, and thereby is not limited by the customers' knowledge, bias, or shortcomings. This market perspective is used as one input to the company's volumetric forecast.
2. **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 (make-to-order), and in others it's the company's forecast (make-to-stock) 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.
3. **Historical View** - this projects the company's history using 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 patters that can be observed and modeled. It is a third input to the company's volumetric forecast.

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 could be quite different -having individual credibility, but 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** that is

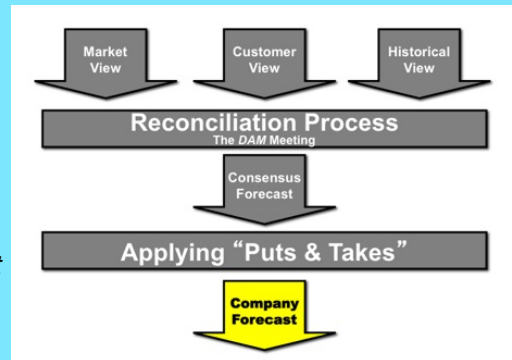


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necessary to get all functional departments operating from the same set of demand numbers. This has become a best-in-class volumetric forecasting practice. The objective is to develop a "Consensus Forecast" that is *reasoned, reasonable, credible, 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 this step. This reconciliation activity 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**, etc. into sharp conflict. Attending are 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*.

Applying "Puts & Takes"

Once reconciliation has been achieved, there is one thing 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

ANNOUNCEMENTS

- **Ordering books**

It will remain as before. If you're in my web site, click on a book and it will take you to the TFWallace Web Site (being managed by a company other than Tom) and you can order any of our books. Let me know if you have any difficulty.

- **September 22, 2015** - St. Louis APICS PDM - Top Management Night
 - Sheraton Clayton Plaza Hotel, St. Louis
 - S&OP Success: Why and How to Engage Top Management
- **October 5, 2015** - APICS International Conference in Las Vegas
 - Mirage Hotel and Conference Center
 - Tom Wallace and I will presenting on the topic of: **S&OP Success: Achieving Transformational Business Results**
- **November 12 & 13, 2015** - Shanghai S&OP Conference
 - Guofeng Hotel in Shanghai, China
 - The New Approaches of Best-Practice S&OP
 - The Cultural Challenges of Best-Practice S&OP
- **January 14 & 15, 2016** - APICS PDM & Seminar
 - Raleigh/Durham, NC
 - S&OP Success: Why and How to Engage Top Management
 - S&OP Implementation Seminar: Achieving Transformational Results
- **May 17, 2016** - APICS PDM: Top Management Night
 - Greenville, SC
 - S&OP Success: Why and How to Engage Top Management

(Note: If you would like more information about the events above, please do not hesitate to contact me at:
RStahlSr@aol.com)

coauthored six books, including *Sales & Operations Planning-The How-To Handbook, 3rd Edition*, and *Sales & Operations Planning-The Executive's Guide*. Three of his books have been used for professional certification. Bob was also the inaugural S&OP Editor of the IIF's (International Institute of Forecasters) *Foresight Journal*.

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