

BACK TO SQUARE ONE – GETTING TO PROPER PLANNING

>> Planning is often considered to be a strategic asset to determine company alignment and direction. Just as often it is considered to be the biggest waste of time known in business, as figures are either completely off or are outdated by the time they become available.<<

As usual, both statements carry a grain of reality as well as fiction in them. Making assumptions about the future is an important steering tool, but it has to be done in a way that adds value instead of merely squandering resources. Often, this is not something to be solved by changing software, but the process of forecasting itself has to be clarified to all people involved.

Before any number is entered, it should be explained why a forecast is done, in which way it is supposed to be done and finally, what is being forecasted. For a start, the word forecasting and planning are often used synonymously, which might lead to confusion already. A forecast is an analytic process to determine the most likely outcome over a given period of time, using actual data and assumptions about determining factors on the chosen measure. It sets the most likely outcome running business as usual without making any modifications to the modus operandi. A plan on the other hand is specifying how the future should be; it sets waypoints to be achieved. Thus, a sales forecast is an extrapolation of current market situation, comprising all factors that influence the forecasted value. A sales plan spread out what a business wants to sell. Of course, there will be deviations between forecasted and planned values. These deviations should be the core of an action plan – if planned values exceed the forecasted ones, action is necessary to bring another factor into play, improving the forecasted figures to meet the plan. Should the plan be below the forecasted figures, efforts could be made to influence the spread to go for another, similar product, or by simply raising the planned value.

Baseline rules have to be established about what should be forecast. If a circumstance in the future is disputable, what should be done about it? How certain has an event to be to be allowed to find its way into the forecast? If there is no guideline about this, you will inevitably end up with your forecast being a mix of rather optimistic assumptions, worst-case scenarios and some accurate predictions, watering down the overall accuracy to a puddle of goo.

Let's face it. Even though we'd like a forecast to be a logic, data-driven exercise, it will end up on someone's table uttering the words "Can you change this figure to be 10% higher, else we will not get approval from management". This is a painful dead to even the most accurate prediction. Management adjustments are not to be put in a forecast, but are perfectly legal and even welcome in a plan. Already it pays off to know the difference. A plan is often just as much politically driven as it is economically. Sales manager's bonuses are often linked to achieving the planned target, so they are of course interested to set the plan values as low as possible to guarantee getting their bonus, managers are tempted to set it unreasonable high to incite their sales force to work harder. Top Management is interested in showing some solid growth in their company and want to set high goals to achieve said growth. All these reasons merged should come up with a decent plan to set the goals, but may never cloud the accuracy of the forecast.

The audience of the forecast and plan data on the other hand determines what should be measured. A general guideline should be to use a detail as deep as necessary and as high as possible. If the forecast is too detailed, it will be hard to react on recent events like 9/11 or the economic crisis.



A forecast is nearly immediately turned to waste under these circumstances, as dramatic changes in all influencing factors turn markets upside-down, and you might want to reforecast before running 6 month into finding out what you did was useless in the new situation. If the forecast is on too high level, you shut out a portion of the audience. Production Planners will not be able to make much of a high level plan, as they have to know exactly which products and variants have to be produced. Finding a middle ground everyone can live with is an essential step before implementing any planning system.

Overall, good planning and forecasting starts with the process of setting guidelines and making clear to all parties involved what is expected and in which way. No advanced planning system can make up for crappy data quality, and before getting to design and implementation you should make sure to start of a clean data pot.

>> **Daniel Ströbel** is a Business Intelligence Consultant for ascention information management ltd., based in Friedrichshafen at the beautiful lake Constance. He's specialised in planning and forecast applications and devoted to make the whole process a meaningful and value-adding one.

daniel ströbel
consultant

t. +49.7541.95283-199
daniel.stroebel@ascention.com

