

It's time to revitalize your Planning Concept

A response to changes in technology, customer behavior and business environment

An introduction to why and how you should assess your current Planning Concept in a dynamic environment



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The 'Why'

The Planning Concept is one of the keystones in every company's supply chain affecting the supply chain performance and its contribution to the overall business objectives. If one fails to understand the importance of the concept, it can be critical and in worst case put the value chain under pressure due to the lack of guiding principles derived from the planning concept. This implies that supply chain professionals must grasp the factors influencing the current Planning Concept on a detailed level.

The concept should always reflect the latest trends and changes in customer behavior, technology and business environment (see figure 1), to make sure that business activities reflect today's and tomorrow's surroundings. Being able to track important trends and changes can both inspire to the next business opportunity or point to areas, where companies are lacking behind. These areas can represent opportunities or threats, and supply chains must either adapt or adopt to stay in the game.

Some examples of trends in the **business environment** affecting the supply chain are economies going from recession to growth and changes in the political environment like "Brexit", wars or new legislations. Changes in econo-

mies can directly influence the capacity and stock situation of the company due to increase in demand, where the companies not necessarily are able to fulfill the demand with the current capacity, and production facilities. This can trigger a need for prioritization of customers and orders, which call for processes that can handle this. Furthermore, there will be a need for precise forecast and better demand planning, to handle increases in demand and prioritization of products.



Figure 1: Changes affecting the Supply Chain

Climate changes have dictated reductions in CO2 emissions, and led to changing cost structures on energy consumption and new business models with renewable energy.

Looking at **customer behavior**, the technological innovation impacts the way customers and businesses can, and will interact in the future. In short, customers' expectations must be addressed as they are increasing and changing. The key words are

speed, availability and flexibility to meet the new customer behavior. Companies that neglect this, risk to lose ground in the global competition.

A new area requiring more focus is Omni-channel where physical and online channels flow together as orders can be placed from anywhere on any device and media, and fulfillment can be executed from anywhere. From an order perspective, orders can be placed through call centers, on a smartphone, in a store or from a catalog. From the fulfillment perspective, fulfillment can take place using DCs, 3PLs, vending or drop-ship. In order to provide the customer with all these options, a high level of flexibility, transparency and integration across supply chains are a prerequisite.

Another example is the higher weather volatility, which will have a negative impact for some companies because of higher risk and costs in terms of unforeseen events like flooding, drought and hurricanes affecting e.g. the movement of goods and crop yield.

Technology and its increasing impact on business activities, suggests many opportunities for the supply chain such as robots in

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manufacturing and warehousing to reduce headcounts and cost of supply chain operations. Another hot topic within technology, is the

inexhaustible options that come with 3D printing taking lead-time out of the equation. Lastly, one must not forget digitalization and its notable impact on integration and collaboration with suppliers and customers.¹

All of the above examples trigger a need to revisit the Planning Concept, to be certain that it remains in balance with the business and its environment.

The 'How'

Dynamic markets, products, processes & technologies have out-competed 'One Size fits all'. As a result, the Planning Concept should be considered as an iterative process, where one can evaluate the concept in defined cycles spanning from 6 to 24 months depending on the industry.

One way for companies to deal with the changing environment is to change focus towards Segmented Planning Concepts, where parameters and principles continuously are fine-tuned in defined time cycles to optimize service levels, inventory and capacity in the pursuit of fulfilling overall business objectives. The key to achieve this is to divide your business into discrete segments based according to characteristics, and establish supply chains with structures and principles that fit the segmentation.

Examples of supply chain segmentation:

- Market characteristics
- Product portfolios
- Customer portfolios
- Inventory yield
- Omni-channel sales
- Global operations
- Channel partners
- Suppliers

The foundation of segmentation is to identify the segments and understand the supply chain services required for each segment. These segments need to be analyzed in terms of capabilities and constraints serving as input for selecting the optimal set-up.²

In figure 2, you see a Supply Chain Concept Model that shows which dimensions to evaluate when revitalizing your Planning Concept.

structures like products, distribution, production and demand pattern. The push/pull principles and control points, where you shift between pushing and pulling your goods in the production or distribution network, are likewise assessed.

The next dimension is processes, where the focus is to ensure that the activities are in sync with each other. In order to validate the fit,

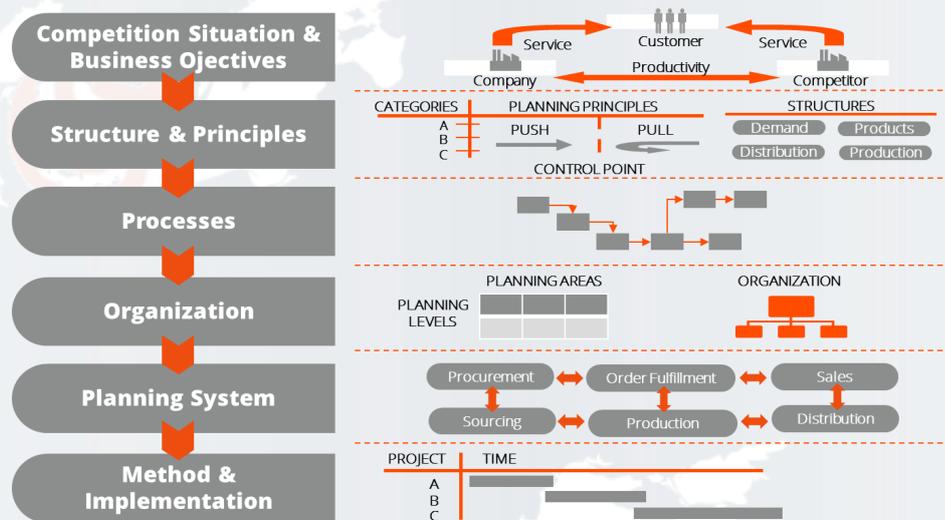


Figure 2: Supply Chain Concept Model

The figure highlights the desired link between segmentation, structures, principles and parameters.

A Planning Concept should always be aligned with the focus areas that the management has decided for the supply chain, which is essential in order for the company to use its resources as effective as possible.

Examples of focus areas include cost focus, responsiveness (e.g. order fulfillment lead time) or reliability (e.g. perfect order).

The Planning Concept must fit the current business context, and not the context of yesterday. This implies that the objectives must accommodate the competitive situation.

Next, one assess the current

one can validate whether the processes are aligned with the parameters like lot sizes or planning horizons. Likewise if the prioritization is aligned with the segmentation.

In the organizational dimension it is important to determine if resources are properly allocated, and add value to the processes. Do employees use their time on the right things, and do they have the necessary competences? Is the split of planning responsibilities adequate? The KPI structure must also create incentives to make sure that employees are only being measured by KPIs that are aligned with the Segmented Planning Concept, and focus areas set by the management.

When the above three dimen-

sions have been aligned and optimized according to the revitalized Planning Concept, it is important to ensure that responsibilities, processes and concepts are supported by the planning systems and tools.

It cannot be stressed enough that companies often fail in this dimension, when it comes to implementing the changes in their systems and tools. It is highly important that all parameters are updated to reflect the desired design.

Parameters such as planning horizons, lot sizes, and re-order points always need to be updated even though one might be able to change it manually when needed. Remember that the output from systems and tools are only as good as the input. Moreover, pa-

ees, departments or functions before extending to the whole organization.

Remember

When addressing the Planning Concept, it is essential to evaluate all dimensions such as structure, principles, processes, organization and planning system, that can be affected by changes in the business environment, technology and customer behavior. In addition, it is important to consider the same dimensions that would be impacted by changes in one area of the supply chain to make sure that small adjustments, or bigger changes provide the desired impact.

The Planning Concept of a company is vital for the supply chain performance, and is the main

driver of fulfilling the overall business objectives. The concept should therefore reflect the

current business context and not the context of yesterday. Put simple, segment, determine the concept and remember to revitalize in defined cycles, to be certain that it remains in balance with the business and its environment.

No company should take the risk of employing an outdated Planning Concept implying wasted resources and ineffectiveness. Make sure to grasp and evaluate the Planning Concept thoroughly, and get on top of what adds value to the business./

Appendix

¹ Lund, Camilla Thuge & Nielsen, Nanna Thue, December 2016: Supply Chain trends and responses 2017 - Be Inspired by the best to adopt or adapt, Synchronic Management Consulting

² LTD Management, 2017: Supply Chain Segmentation - A Guide to Creating Value, Countering the Monolithic Redesigning the Supply Chain

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rameters are often input to several processes and can therefore lead to misunderstandings and inefficiency when out of sync.

Should any design changes be necessary, this should be accommodated as well.

After evaluation of the 5 dimensions, one will have an understanding and overview of where to initiate changes. The changes will be part of an implementation plan together with a method that helps you succeed with the business changes. In this relation you decide whether one will implement the changes in different phases, do a direct cutover or run the old and new design parallel for a defined time period. Furthermore, one decides whether to do a pilot project for some employ-