Gartner

Press Release

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Gartner Highlights Best Practices for Supply Chain Leaders to Improve Their Overall Demand-Planning Processes to Deliver Against Business Goals

Analysts to Discuss Effective Demand Planning at the Gartner Supply Chain Executive Conference 2012, 17-18 September in London

Egham, UK, 29 August, 2012 — A functioning demand-planning process is a key enabler for supply chain organisations, and getting the process right is fundamental to improving demand-planning effectiveness, according to Gartner, Inc. Gartner analysts have identified some best practices to help supply chain leaders improve their overall demand-planning processes to deliver against business goals.

To better understand the state of demand planning, Gartner surveyed 240 respondents during the fourth quarter of 2011 in Brazil, China, Europe and the US, spanning seven industries: consumer products, aerospace and defence, healthcare, consumer electronics, chemical, apparel, and footwear.

The survey found that the primary influences on demand variation were increased customer requirements followed by new product launch and the state of the economy. Fifty-seven per cent of respondents also said that erosion in profitability had the greatest effect on their organisations.

"It is critical that organisations develop the right demand-planning process to improve effectiveness," said Steven Steutermann, research vice president at Gartner. "Without a functioning process, obtaining a consensus-driven demand plan will prove extremely challenging."

"Organisations are struggling to find the process that fully utilises the alignment of organisation resources," said Mr Steutermann. "The balance between bottom-up collaborative approaches versus top-down statistical modelling is challenging, and the ability to understand baseline volumes from promotional volumes — as well as mix and shift within portfolios — is an equally daunting task."

Gartner has identified a number of best practices to help supply chain leaders improve their overall demand-planning processes. You can also view Gartner's demand-driven maturity model on Flickr at /bit.ly/NuQwVs.

Finding 1. Defining the balance between statistical modelling and collaborative forecasting improves accountability for the forecast, and enables continuous improvement across the organisation

Companies can benefit from clearly defining the balance between statistical modelling and collaborative forecasting methods to improve accountability for the forecast and put in place continuous improvement plans to improve the forecast. When asked what the challenges are when improving demand planning, respondents indicated the "lack of accountability for the accuracy of the forecast" and "lack of communications between commercial and demand planning" as the two biggest.

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"Determine the best method, or methods, to optimise forecast accuracy," Mr Steutermann said. "The company should be able to address what items should be statistically modelled, what items are reliant on a collaborative process, or both. The demand-planning organisation should play a central role in identifying accountabilities across the organisation."

Finding 2. Companies that utilise demand sensing* and shaping** capabilities realise higher forecast accuracy

Gartner research found that those companies that utilise demand sensing and shaping as part of their demand-planning processes significantly improve their forecast accuracy.

"To fully realise the benefits of demand sensing and shaping, organisations must first mature their demand-planning processes," Mr Steutermann said. "A rigorous process and discipline must be supported by organisational balance, metrics, sponsorship, ownership and accountability. Organisations must recognise that the demand plan is not a sales or marketing forecast, nor is it a budget. It is a process by which organisations determine the most profitable mix of items that could be sold, balanced by constraints and demand risks."

Finding 3. Demand-planning process best practices include measurement, planning hierarchies and new product launch forecasting

Despite the focus on customer collaboration and customer inputs, only 17 per cent of respondents indicated that they forecast at the stock keeping unit (SKU), location and customer planning level. Given that a primary driver of demand volatility is increased customer requirements, Gartner analysts found it surprising that companies do not measure demand error down to the customer level as a means to better understand the sources of error — so that process and accountabilities can be improved. They also said that new product launch forecasting is overly reliant on sales and marketing for demand inputs. Opportunities exist to remove forecast bias by utilising attribute modelling techniques and solutions that use similar product introductions to understand consumer/customer trial and repeat, as well as volume-build assumptions, to improve the forecast.

"Organisations should measure forecast accuracy at the item, location and customer level for forecast error understanding," Mr Steutermann said. "Customer or sales forecast accuracy should be measured for continuous improvement and accountability. The appropriate place to measure for continuous improvement is in the sales and operations planning (S&OP) review process."

Additional information is available in the report: "Building an Effective Demand-Planning Process," which is available on Gartner's web site at http://www.gartner.com/resId=2085615.

Mr Steutermann will examine the state of demand management across industries at the Gartner Supply Chain Executive Conference 2012, taking place from 17 to 18 September in London, please visit www.gartner.com/eu/supplychain. Members of the media can register by contacting Laurence Goasduff, Gartner PR at laurence.goasduff@gartner.com or on + 44 1784 267 195. Additional information from the events will be shared on Twitter at http://twitter.com/Gartner_inc and using #GartnerSCC.

Notes to Editors:
Demand sensing*: Gartner defines demand sensing as collecting and leveraging downstream channel data in supply chain decisions. The downstream data is not limited to short-term information, but can include any insights from the customers or the commercial organisation.

Demand shaping**: The definition of demand shaping used in the research is, conscious activities that influence customer demand toward more-profitable categories or specific products.

About Gartner Supply Chain Executive Conference 2012
Supply chain executives face an unprecedented challenge: to successfully balance the need for cost efficiencies with a growing demand for agility. For most, this means a fundamental shift in strategy, planning and implementation — and a new ability to provide guidance and leadership to every member of their global supply chain team. Gartner analysts will provide actionable advice for organisations to succeed: from strategy and planning to distribution and logistics.

About Gartner
Gartner, Inc. (NYSE: IT) is the world's leading information technology research and advisory company. Gartner delivers the technology-related insight necessary for its clients to make the right decisions, every day. From CIOs and senior IT leaders in corporations and government agencies, to business leaders in high-tech and telecom enterprises and professional services firms, to technology investors, Gartner is the valuable partner to clients in 12,000 distinct organizations. Through the resources of Gartner Research, Gartner Executive Programs, Gartner Consulting and Gartner Events, Gartner works with every client to research, analyze and interpret the business of IT within the context of their individual role. Founded in 1979, Gartner is headquartered in Stamford, Connecticut, U.S.A., and has 5,000 associates, including 1,280 research analysts and consultants, and clients in 85 countries. For more information, visit www.gartner.com.

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