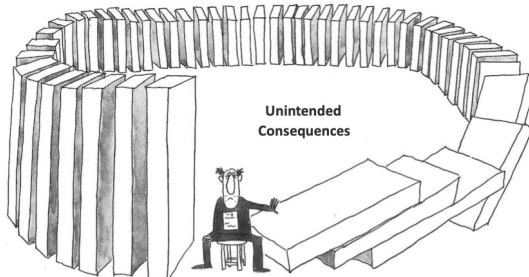


Strategic IBP: Driving Profitable Growth in Complex Global Organizations

DEAN SORENSEN

PREVIEW *In the past few years, Foresight has printed several articles offering visions of Integrated Business Planning (IBP). The term often is used as essentially interchangeable with Sales and Operations Planning (S&OP), with its emphasis on the forecasting and planning functions of the organization. Now Dean Sorensen offers his perspective on IBP, with a specific focus on global manufacturers (GMs). He thinks that what we have been calling IBP is too narrow to be considered “fully integrated.” What is missing, Dean explains, is the strategic element of a truly integrated process, with the consequence that GMs are unable to realize the value from effective management of complexity. It is a call to arms for a rethink of how we can optimize organizational resources.*



INTRODUCTION

It is said that a picture is worth a thousand words. The one above captures a key objective that Integrated Business Planning (IBP) should support, especially in global manufacturers (GMs) that must cope with ever-increasing complexity: to help GMs optimize performance by avoiding unintended consequences arising from silo-based and disconnected decision making. The problem is that IBP is not supporting this objective in GMs.

My views in this article are a departure from those contained in most that have been written about IBP. I believe there is a gap between the theory and reality of IBP, with the consequence that GMs aren't fully realizing the benefits and value of

integration. This gap reflects the difference between what I call tactical and strategic IBP, which is the strategic element that's been missing.

IBP EVOLUTION

Let's start with an understanding of how Sales and Operations Planning (S&OP) has evolved into IBP. S&OP is a supply-chain process that balances supply and demand by enabling manufacturers to maximize order-fulfillment rates and revenue, while minimizing inventory investment, production, and supply costs. In other words, S&OP is a way of planning and managing “trade-offs” between conflicting objectives for one outcome, that being “customers having products when expected, at desired supply costs.” Driven by demand forecasting, S&OP has proven to be an effective tool for managing this outcome and these related trade-offs.

The thinking behind IBP was to leverage this success by extending the principles of S&OP to the enterprise as a whole. Through integration, the goal was a cross-functional and collaborative process that supports a single plan of record, one that

Exhibit 1. Examples of Integration Management Approaches, Methodologies, and Terminologies

- | | |
|-------------------------------------------|---------------------------------------|
| ▪ Integrated Business Planning (IBP) | ▪ Integrated Financial Planning (IFP) |
| ▪ Integrated Performance Management (IPM) | ▪ Integrated Supply Chain Management |
| ▪ Integrated Strategy Management | ▪ Integrated Workforce Management |
| ▪ Integrated Portfolio Management | ▪ Integrated Tax Planning |
| ▪ Integrated Cost Management | ▪ Integrated Reporting |
| ▪ Integrated Risk Management | ▪ Integrated FP&A |

enables manufacturers to drive strategy execution and optimize performance by providing the basis for effective decision making.

IBP CURRENT STATE

The reality is that IBP (aka advanced S&OP) is falling short of this vision in GMs. But so too are other integration management approaches, methodologies, and technologies, examples of which are shown in **Exhibit 1**.

These planning and performance management (P&PM) methodologies and terminologies have become confusing. Forward-thinking executives are now questioning the difference between IBP, IFP, and IPM along with the others, especially in GMs that have made significant technology investments in these management processes. Despite these investments, many still struggle to achieve the key management objectives illustrated in **Exhibit 2**.

When it comes to achieving these strategic, financial, and operational (SFO) management objectives, GMs can feel like they are “hitting a wall.” No matter what they do, it seems like they can’t quite resolve underlying issues that prevent their achievement. When this point is reached, it is symptomatic of capability gaps that are not being addressed by IBP and the other processes, tools, and approaches shown in Exhibit 1.

This happens because SFO objectives become highly interconnected as complexity rises. For example, the same capability gaps prevent GMs from achieving objectives pertaining to scenario planning, cash-flow forecasting, and profit-based S&OP. What this means is that CFOs can’t improve their processes without integrating them with operations, and vice versa. What’s required are more holistic approaches and processes, with capabilities that address underlying gaps, thereby enabling GMs to cope with complexity.

IBP AND COMPLEXITY

When IBP processes are fully integrated, inventories, resources, and cost structures

Key Points

- Integrated Business Planning (IBP) has the potential to create significant value for organizations of any size but particularly for global manufacturers (GMs). But IBP—as we know it today—doesn’t effectively cope with complexity, the cost of which can approach 5% of sales.
- One of the primary reasons for this value shortfall is that the market continues to define and view IBP processes and technologies through outdated and siloed lenses. A better way of defining IBP is a process for planning, managing and governing outcomes. Its primary objective should be to optimize profits by aligning strategic, financial, operational and commercial outcomes.
- Mature IBP requires three critical business capabilities that most GMs lack: cross-functional alignment that eliminates silos; accountability for delivering strategic, financial, and operational outcomes; and scenario planning that provides forward visibility into the consequences and risks of decisions.
- Establishing these capabilities in GMs is more involved than in smaller manufacturers. What’s required are four incremental management capabilities that arise when strategic, financial and operational processes are fully integrated. They are cost matrices, productivity management, trade-off management, and integrated scenarios. I discuss the actions needed to achieve these capabilities.
- Some believe that greater integration means that Finance simply needs to be more involved in IBP, but this in itself is not sufficient. In fact, Finance should own the process. With Finance in charge, there will be no question about executive engagement and process participation.

can quickly self-adjust to changing customer requirements, market conditions, and profit targets. At this point, IBP becomes a process for continuously aligning

Exhibit 2. Examples of Interconnected Management Objectives that Manufacturers Struggle to Achieve



cost structures with revenue streams. However, establishing such processes becomes more difficult because increasing numbers of products, customers, and services have

- different pricing, cost structures and service expectations,
- are subject to wider variations in demand volume and mix,
- are supported by different overhead cost structures, and
- share resources across multiple business units.

Mature IBP processes cope with these complexities by connecting outcomes and profits, not just for supply-chain activities but for the enterprise as a whole. In so doing, they enable GMs to balance the achievement of common business objectives that often conflict with one another.

These include increasing customer satisfaction/retention, while also

- improving profits and cash flow,
- reducing costs and inventories, while simultaneously delivering exceptional service and quality,
- optimizing performance of functions and business units, while doing likewise for GMs as a whole.

These examples of trade-offs (between cost, service, and quality) affect virtually every aspect of enterprise performance. However, GMs don't always manage them well. One reason is that IBP processes lack formal capabilities for doing so. Ironically, this central S&OP principle of managing outcomes and trade-offs has not been effectively translated to the enterprise level.

Exhibit 3. Value Erosion Evidenced by Research Study Results

In complex global manufacturers, one challenge underlies the value erosion exposed by the results of the following research studies. That being an inability to effectively plan, manage and govern [strategic, financial and operational] outcomes and tradeoffs.

Profitable Growth Only 11% grow revenue & profits by 5.5% & earn back cost of capital (Bain)	Cost Reduction 90% fail to sustain cost reductions for > 3 years (McKinsey)	Cost Reduction 90% fail to sustain cost reductions for > 3 years (Corporate Executive Board)	Productivity Management Effective capabilities produce 30% to 50% higher margins (Harvard Business Review)	Customer Experience 93% of "CX" Programs Fail to Differentiate (Customer Think Tank)
Strategy Execution Companies realize only 63% of strategy value (McKinsey)	One Common Challenge . . . Inability to plan, manage & govern strategic, financial & operational outcomes & tradeoffs across multiple functions, business units & legal entities			Lean Six Sigma 31% Delivered Forecasted Benefits (Alix Partners)
Change Management 25% of gains sustained over time (Towers Watson)	. . . Undermines The Ability to Manage Complexity Complexity Costs = 3% To 5% of Sales			Continuous Improvement 58% realized minimal financial impact (Accenture)
Finance Transformation 27% Deliver Forecasted & Sustained Benefits (Corporate Executive Board)	Cost Of Complexity Complexity costs 3% to 5% of sales (AT Kearney)	Cost Of Complexity 10.2% of profits lost due to hidden cost of complexity (Henley Business School)	Complexity Management Effective capabilities increase revenue by 5% (PriceWaterhouseCoopers)	Cross Functional Alignment Only 20% have effective cross functional alignment (Harvard Business Review)

DECISION MAKING AND VALUE EROSION

This reality is one of the primary shortcomings of traditional IBP processes. While these processes may support tactical and supply-chain-centered decisions, they fall short of supporting strategic ones, the focus of which is optimizing enterprise value. These “Tactical IBP” processes leave GMs unable to cope with complexity-driven costs, which can erode profits by upwards of 5% of sales. This value erosion manifests itself in different ways, as evidenced by the results of the research studies depicted in **Exhibit 3**.

These sources of value erosion stem from one common challenge: an inability to effectively plan, manage, and govern outcomes, together with related trade-offs. Moreover, they are indicative of enterprise planning and performance management (P&PM) processes lacking sufficient SFO integration—the mechanism by which outcomes are connected to profits. The absence of such integration does much to explain why GMs have difficulty managing costs, delivering differentiated customer experiences, and achieving value from operational excellence.

IBP MATURITY MODEL

Supporting strategy, while capitalizing on this value opportunity, requires looking at IBP differently, beginning with a more holistic definition. The complication is that

there is no universal definition of what comprises fully integrated IBP processes. What often results is confusion about IBP objectives, scope, and value.

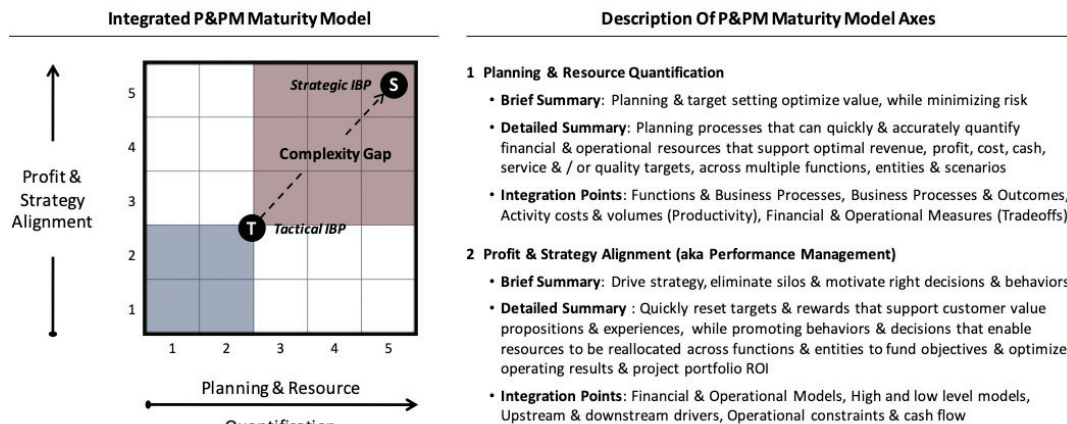
In my view, IBP is a process for planning, managing, and governing outcomes. It creates value by aligning outcomes with profits. A more complete definition follows:

IBP is a continuous planning and performance-management process that translates desired business outcomes into executable financial and operational plans, while enabling decisions that balance and optimize trade-offs (between shareholder, customer, and stakeholder value) and risks, across functions and entities for the enterprise as a whole.

Contributing to the confusion over the meaning of IBP is the fact that that market analysts continue to evaluate IBP technology in silos. For example, separate maturity models exist for S&OP and financial planning and budgeting software. What’s missing is a maturity model that brings these views together, such as the one illustrated below in **Exhibit 4**.

Here planning and performance management are combined into one maturity model, with brief and detailed summaries of each of the two axes provided in the exhibit. This exhibit illustrates that there are different levels of IBP maturity, ranging from tactical to strategic. These two extremes are represented by points T and S.

Exhibit 4. Integrated Strategic, Financial & Operational (SFO) Planning and Performance Management (P&PM) Maturity



Three things are worth noting about the maturity model. First, point “T” represents the maturity level of most GMs. They are stuck at this maturity level, despite having implemented traditional P&PM methods and tools. This includes S&OP, advanced S&OP, Financial Planning & Budgeting, Rolling Forecast, Balanced Scorecard, Activity-Based Costing, Project & Portfolio Management, and Supply-Chain Optimization.

Second, point “S” represents processes that enable GMs to plan, manage, and govern outcomes. At this point, there are no differences between the integration approaches shown in Exhibit 1. Rolling forecasts and S&OP become part of one process, supported by a single model and workflow that is shared by finance and operations. Such maturity provides the means to minimize the value erosion shown in Exhibit 3 by enabling GMs to effectively manage complexity.

Third, specific integration points (shown in Exhibit 4) comprise the difference between points T and S. Such integration creates incremental capabilities that most GMs lack. While there are many of them, these are the most important ones for executives to understand:

- cross-functional alignment that eliminate silos,
- accountability for delivering strategic, financial, and operational outcomes,
- scenario planning that provides forward visibility into the consequences and risks of decisions.

I address each of the above in more detail in the sections that follow. Further details about the maturity model and these capabilities can be found in a separate video, which can be accessed <http://ibpcollaborative.org/strategic-ibp-driving-profitable-growth-in-complex-global-organizations>.

Cross-Functional Alignment

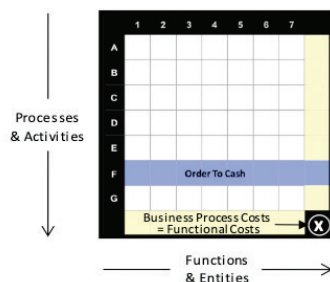
Ironically, one of the most significant flaws of many IBP processes is that they don’t break down functional silos. While they may address data silos and enable cross-functional collaboration, they lack formal capabilities for establishing effective alignment around optimizing business outcomes.

This is important to understand, for two reasons. First, the underlying value of IBP is based on the ability to quickly re-allocate resources across functions and entities. Silos, and fixed functional budgets that reinforce them, prevent this free flow of resources. Second, they also undermine most strategies pursued by GMs, like operational excellence and customer relationships.

Consider the example of an order-to-cash process. Who in your organization owns these metrics: perfect order fulfillment, cost per order, and days in accounts receivable? And who has decision rights that allow them to make required functional and process changes to achieve targets for these metrics? The answer in most GMs is “no one.” More than any other factor preventing GMs from rectifying this governance challenge is the absence of effective alignment mechanisms, such as those illustrated in **Exhibit 5**.

Exhibit 5. Cross-Functional Alignment Mechanisms that Break Down Silos—Order-to-Cash Example

Exhibit 5.1: Cost Matrix – Accurate Business Process & Activity Costs That Are Always Reconciled To Financials (Order to Cash Cost Supports Productivity in 1.2)



Accurate & Reconciled (Actual & Forecasted) Business Process & Activity Costs Support Tradeoff Management

Exhibit 5.2: Tradeoff Management – Productivity, Service Level & Quality Metrics Defined For All Processes & Activities (Productivity Metric = Cost Per Order)

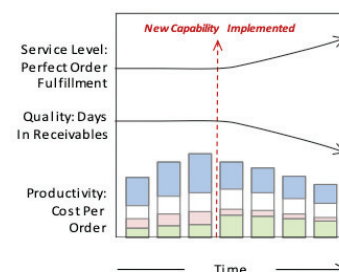


Exhibit 6. Example of Outcomes & Related Trade-offs Expressed in Terms of a Hierarchy

Outcome Hierarchy Level	Outcomes & Related Tradeoffs		
	Outcome Definition	Maximize	Minimize
1: Business Unit	Profitable Growth In Business Unit	Revenue & Profit Growth Customer Relationship Depth	Cash to Cash cycle time Overhead Costs
2: Customer Segment	Profitable Customer Segment Over Short and Long Term	Segment Value & Growth Customer Retention / Delight	Segment [Overhead] Costs Segment Inventory
3: Customers	Retained & Profitable Customers	Revenue & Margin Growth Customer Retention / Delight	Inventory & forecast error Cost to Serve & overhead costs
4: Product Segment	Competitive & quality products that maximize long term cash flow	Product Portfolio Growth Price & Cost Competitiveness	Product issues & complaints Product Overhead Costs
5: Products	Products meet customer needs, at costs enabling target margin	Revenue & Inventory Availability Product satisfaction	Inventory Investment Production & Supply Costs
6: Service & Experience	Customer expectations met with all interactions	Experience satisfaction	Cost per experience
7: Business Processes (a, b)	Customers have product when they need it	Perfect Order Fulfillment	Cost Per Order Days in Receivables
8: Functions & Activities (a)	Perfectly picked orders, at expected costs	Orders Picked on time	Cost Per Pick Picking Errors

(a) Examples provided above in levels 7 & 8 are for the order to cash process (b) Order to cash metrics in line 7 are also illustrated in exhibit 5.

Collectively, these mechanisms provide the means to focus people on broader process objectives, rather than those of individual functions. This is achieved by rewarding individual employees and teams based on achieving cost, service, and quality targets for business processes (such as those illustrated in Exhibit 5.2) rather than on those of the individual functions and activities. In fact, the absence of such mechanisms does much to explain why 75% percent of cross-functional teams are dysfunctional, according to a recent article in the *Harvard Business Review* (Tabrizi, 2015).

Without these capabilities, GMs also struggle to manage productivity well. After all, who would focus on productivity targets (such as cost per order) instead of a budget, when they don't believe the numbers are accurate? The answer is very few, without a cost matrix capability like that illustrated in exhibit 5.1. The net result is a very expensive capability gap, since this capability can produce 30% to 50% higher margins than competitors, according to published research (Mankins, 2017).

Outcomes and Trade-offs

To plan, manage, and govern outcomes requires a framework that defines outcomes, along with related trade-offs, that can be used as the basis for planning and performance-management processes. **Exhibit 6** offers outcome definitions with their associated trade-offs. For example,

business processes should seek to get product to customers when they want it, and the trade-off is between perfect order fulfillment and the costs per order of days in receivables.

When embedded into IBP processes, this outcome hierarchy addresses one challenge that is highly relevant to CEOs and business unit leaders: that no one person or team is accountable for the outcomes and trade-offs shown in levels 2, 3, and 4 of Exhibit 6.

What this means is that GMs can't effectively manage product and customer portfolios, along with inventory levels and profits. Here's why: In complex GMs, overhead costs become a larger part of cost structures. The activities causing these overhead costs become an important part of customer value propositions, especially for those pursuing digital strategies. So decisions about inventory levels cannot be made in isolation of those for customer-service activities and costs.

This outcome hierarchy provides GMs with something that most lack—an "internal market mechanism" that connects internal customers and suppliers. It provides the means to explicitly translate customer value propositions (that underlie GM strategies) into the processes and activities that comprise them. In so doing, it enables an explicit two-way dialogue about service levels that can be supported, given cost constraints. In this context,

Exhibit 7. Mature Forms of Scenario Planning Provide the Means to Simultaneously Answer the Types of Questions Shown Below, While Also Enabling GMs to More Effectively Cope with Ongoing Business and Market Changes

Integrated Scenarios Simultaneously Answer These Types Of Questions While Coping With Business & Market Changes
<ul style="list-style-type: none"> ▪ Do revenue, demand and pricing targets optimize profits and cash flow? ▪ Are our objectives and related targets realistic and adequately funded? ▪ How many people do we need? Do we have enough capacity? ▪ What will spending be? What activities and outcomes comprise spending? ▪ What productivity targets (eg. cost / outcome) underlie resource needs? ▪ Will productivity, service level and quality targets deliver desired results? ▪ Are we optimizing process, product and customer portfolio value? ▪ How much working capital (cash, inventory, A/P, A/R) will we need? ▪ Do our plans minimize tax and foreign currency exposure? ▪ What are the best cost reduction / profit improvement opportunities? ▪ Which investments maximize ROI? How much operating cash is free for investing? 	<ul style="list-style-type: none"> ▪ Business Changes <ul style="list-style-type: none"> – Addition or loss of a major customer – Supply chain disruption or supplier change – Tariff and / or exchange rate changes – New product introduced – New process introduced – Merger or acquisition ▪ Market Changes <ul style="list-style-type: none"> – Variations in demand volume and / or mix – Change in supplier price or volume allocation – Commodity price or labor increase

it enables GMs to more effectively deploy strategy, while managing expectations of both internal and external customers.

This approach requires a different way of planning that connects target setting and resource allocation for products, customers, processes, and functions, one that reflects the economics of individual product and customer portfolios and segments. A key enabler of such processes are mature planning models, which are addressed in the next section.

The absence of these capabilities is one of the primary reasons why GMs fail to achieve profitable growth and competitive differentiation from customer-experience programs, as evidenced by the research results noted in Exhibit 3. Without them, GMs are unable to establish realistic and

adequately funded targets. And, more importantly, they can't establish effective decisions for delivering against these targets. After all, you can't govern what you can't plan!

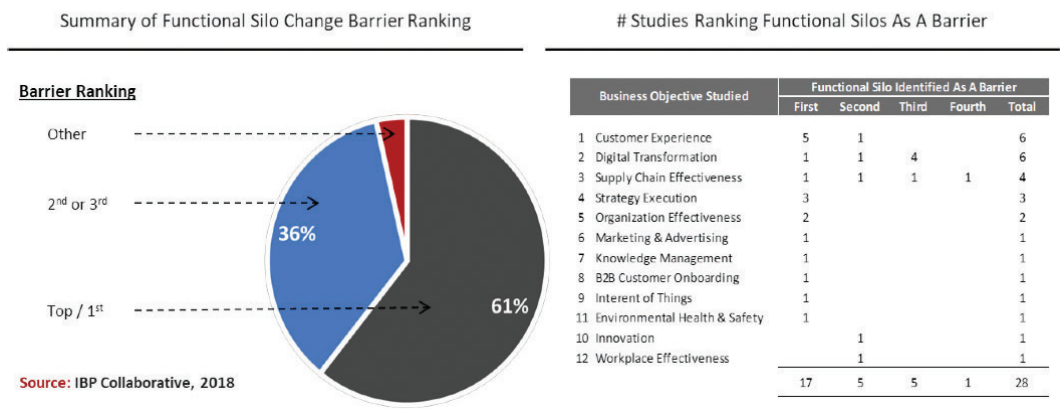
Scenario Planning

Research consistently shows that scenario planning remains a significant challenge for GMs (e.g. Prokopets, 2013), even for those companies that have invested in S&OP, supply-chain optimization, and financial planning and budgeting tools. While these tools may support aspects of scenario planning, many still can't do the following:

- accurately project financial and operational resources and cash flows,
- simultaneously expose and optimally resolve SFO risks and constraints,

Exhibit 8. Research Confirms that Functional Silos Remain the Primary Barrier to Achieving Strategic Business Objectives

Out of 28 research studies, 27 (or 97%) ranked functional silos as one of the top 3 barriers to achieving strategic business objectives. Of these 17 (or 61%) identified silos as the top barrier, while 36% ranked it as the 2nd or 3rd barrier.



- quantify the volume and mix of products and services that optimizes cash flow,
- quickly execute scores of “end to end” scenarios across functions and entities,
- support the outcome-based approaches illustrated by Exhibits 5 and 6.

Prescriptive analytics is a type of planning model tool that supports such capabilities. These models are not new, as supply-chain optimization tools have been available for years. What is new are modeling and process-execution platforms that address the limitations of traditional supply-chain tools. These include:

- modeling the entire enterprise, not just the supply chain and individual entities,
- distributing ownership of parameters to quickly update models for business changes,
- maintaining analytical master data to simplify maintenance of complex models,
- reconciling results to financials, by embedding charts of accounts, and
- optimizing profits and cash flow, not just costs.

The results are planning processes that can answer the types of questions shown below in **Exhibit 7**, while quickly and easily coping with business and market changes.

When SFO processes are fully integrated, these questions can be simultaneously answered as part of a single process. What’s more, scenario results can be quickly incorporated into continuous planning and forecasting processes where there is no distinction between rolling forecasts and S&OP. Integrated scenarios is a term I use to describe such capabilities. At this point, manufacturers achieve “one version of the truth,” on both a forward- and backward-looking basis.

Further evidence of immature planning models can be found in cash-flow forecasting, which remains one of the most problematic challenges despite using

financial-planning and budgeting tools. What’s not always appreciated is that the models required for supply-chain planning are the same ones required for mature cash-flow forecasting, especially since cash optimization should be an output of scenario planning.

Mature processes and solutions, on the other hand, recognize that cash-flow forecasting accuracy is one of the leading indicators of effective IBP processes. And the best way to achieve this is by having one enterprise model that is shared by finance and operations, across a single work-flow-enabled process. In fact, the absence of such integration is one of the primary reasons why CFOs struggle to establish more strategically focused processes.

STRATEGY AND BUDGETING

These three capability gaps represent the key differences between strategic and tactical IBP. Their absence undermines the ability of GMs to define and execute strategies that create value. Without them, GMs struggle to establish strategic alignment, primarily because they can’t eliminate functional silos—one of the most common barriers to achieving strategic objectives, as illustrated by the research results in **Exhibit 8**.

One of the primary reasons functional silos persist rests with budgeting and rolling forecasts—financial processes that are known to reinforce functional silos and impede resource allocation. Even when implementing IBP, these processes see little or no change. Since the value realized from IBP depends on the ability to reallocate resources, it’s little wonder that GMs are not achieving its full potential.

A key feature of strategic IBP is that it addresses this alignment issue. Its incremental capabilities provide the means to fundamentally reengineer SFO P&PM processes. This results in vastly more efficient processes, while also creating the conditions necessary to eliminate silos and promote value-centered decision making. These conditions are summarized

below, along with references to the exhibit numbers (in parentheses) that illustrate enabling capabilities.

- **Insight:** quickly and accurately answer complex questions (7),
- **Accountability:** outcomes form the basis for P&PM (6),
- **Authority:** decision rights based on outcomes (5,6),
- **Motivation:** rewards based on cross-functional trade-offs (5,6),
- **Balance:** trade-offs the focus of P&PM, promoting balanced decisions (5,6),
- **Transparency:** strategic targets directly connected those for functions and outcomes (6).
- **Accuracy:** functional and process costs always reconciled, thereby enabling the above (5),
- **Fluidity:** fast resource reallocation based on quantified needs, not fixed annual budget (5,6),
- **Concurrency:** collectively provide the means to collapse planning cycle times (5,6,7).

A common descriptor of IBP is that it aligns finance and operations, while enabling GMs to drive strategy execution. But how can this be if the process fails to remove one of the primary barriers to strategy execution? It is this disconnect that has led me to one conclusion about IBP in GMs: that traditional IBP definitions, processes, and technologies are being viewed through outdated and silo-confined lenses.

Falling Between the Cracks

There's another important thing to understand about these three capability gaps: they are also the most common flaws in enabling software tools. So these gaps also represent key risks.

Appreciating these risks requires an understanding of the technology that enables IBP. In GMs, traditional IBP processes combine S&OP and financial planning and budgeting (FP&B) software tools. One of the most common assumptions is that mature IBP processes will result from the combination of tools that

are classified as leaders in their respective categories. This is often an invalid assumption, as GMs still struggle to achieve the objectives noted in Exhibit 2.

The problem here is that traditional software companies are themselves designing solutions in silos, S&OP for operations and FP&B for finance. In many cases, these three capabilities aren't supported by either software category—either on their own or together with other tools. In other words, these and other capability gaps are falling between the cracks of solution providers. This doesn't mean that the technology doesn't exist; it just doesn't exist in the places you thought it might.

Rethinking the Five-Step Process

For GMs seeking to optimize the value of IBP, the implication of these gaps is that implementation approaches need to change, especially when it comes to process definition. Historically, GMs have started with the classic five-step process (Stahl, 2009), along with the meetings that are associated with these processes. The thinking, of course, is to get the process right and everything else will follow.

While this thought process is correct, the problem is that this five-step process is outdated and missing steps needed to support strategic IBP. These omissions can be significant, given that technologies that enable S&OP and FP&B may not support the required capabilities.

The key takeaway here is that GMs need to rethink their approach to IBP process definition. It needs to be broader, with a specific focus on the capabilities required to integrate strategic, financial, and operational processes—and with an understanding of the risks associated with blindly following outdated IBP processes and tactical approaches that aren't delivering expected value.

FINANCE AS IBP OWNER

As GMs start looking more broadly at IBP, process ownership is an issue that inevitably arises. Some believe that greater integration means that Finance simply needs to be more involved in IBP, but this

is not sufficient. In fact, Finance should own the process.

Three factors lead me to this conclusion. First, financial discipline is one of the critical success factors for effective IBP processes. The challenges shown in Exhibit 2 provide evidence that such discipline has not been effectively incorporated into the IBP processes that are commonly used in GMs. With Finance driving the process, there will be no question about executive engagement and process participation.

Second, strategic IBP will become a key component of managing the profitability, products, customers, and the enterprise as a whole. Since cost and profitability management is a core Finance function, it is one that Finance should coordinate, especially as it relates to the impact of new products and customer on cost structures and profits.

Third, Finance stands to be one of the greatest beneficiaries of strategic IBP. It will also, however, see some of the most significant process changes, particularly to budgeting, rolling forecasts, cash-flow forecasting, and scenario planning. As such, it should lead the definition of these changes and manage the resulting processes.

This shift in process ownership assumes that Finance has both the desire and resources to take on this role. For CFOs seeking to play a more active part in driving business value, establishing such capabilities within the function is an important first step in finance transformations that can drive significant and sustainable value.

SETTING DIRECTION

Strategic IBP is likely to be the choice of informed executives, especially since the difference can amount to billions of dollars for GMs over the course of a decade. To realize this value, however, executives need to make a deliberate choice between strategic and tactical IBP. What's more, they must also focus teams on the three critical capabilities that will optimize IBP value.

The problem is that executives aren't always given the information to make such

choices. Without them, along with a clear end-state definition, GMs risk implementing processes that drift back towards tactical IBP. What's more, implementation typically takes longer, costs more, and delivers a fraction of the potential value of approaches that are specifically focused on strategic IBP.

Those that recognize the flaws of traditional/tactical IBP processes and implementation approaches stand to benefit the most from these insights. You can avoid the missteps of others to create mature/strategic IBP processes that create value by enabling you to execute customer-driven strategies.

In summary, IBP has the potential to create significant value for GMs. However, many fall short of achieving it, primarily because they employ tactical IBP. These immature processes have key capability gaps that leave GMs unable to cope with complexity. Addressing the gaps requires strategic IBP processes. The first step in doing so lies in understanding differences in IBP maturity levels, especially between strategic and tactical IBP. Armed with this knowledge, you'll be better equipped to make decisions that can help you realize the full value of mature IBP processes.

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Dean Sorensen is Founder of IBP Collaborative and an Advisory Board member of the Operational Excellence Society. With this article, Dean kicks off his role as *Foresight* Editor for Integrated Business Planning.

deanbsorensen@ibpcollaborative.org

Commentary on Strategic IBP

PETE ALLE

The title of Dean's article resonates because I have always viewed Integrated Business Planning (IBP) as a means of connecting and aligning company planning and execution to company strategy and desired business results. Included in those outcomes is company profitability, as mentioned in the title of the article. When implemented and executed properly, IBP can enable not only increased profitability but also delivery of company strategies such as market growth goals, cash-flow improvement, key customer penetration, and others.

There are many points in the article that I agree with and fully support, while there are two points where we are not in agreement. Across this spectrum of agreement/disagreement, I offer some thoughts on expanding upon concepts presented in the article.

Evolution of IBP

Sales and Operations Planning is primarily about balancing supply and demand. The article mentions that financial integration and scenario planning were added to create Integrated Business Planning. I agree, and would add that product and portfolio management are also key components that must be considered within IBP. Portfolio management is about what new products and services will we offer within the company, and which products and services will be reaching end of life and how do we plan for an orderly exit from these products. The portfolio management component is a key to company success and therefore must be included within Integrated Business Planning.

How IBP Is Implemented Matters

Dean defines IBP as "a process for planning, managing, and governing outcomes." We further read that "achieving mature IBP requires three critical business capabilities that most global manufacturers (GMs) lack: cross-functional alignment that eliminates silos; accountability for delivering strategic, financial, and operational outcomes; and scenario planning." I suggest expanding on this definition to include these key attributes of IBP:

- Should be owned and led by the senior management of the company, not delegated or left by default to midlevel managers,
- Must be forward looking in terms of the time horizon. Many companies fail to implement IBP successfully because they are focused on the short term,
- Must be decision and action focused,
- Requires a regular monthly cadence.

My own experience as a practitioner charged with leading implementation of IBP at a large global CPG company was that large, complex organizations, especially those structured as matrixed, may not make decisions particularly quickly. The structure and clarity of decision-making authority is of vital importance.

The definition of IBP and related actions and behaviors must be embraced by all of the key leaders in the organization. They talk the talk, and they walk the walk. Leadership sets the tone.

The Owner of IBP

Dean argues for IBP to be owned by Finance. Here I do not agree. The General Manager or President of the Business Unit should be the owner. The General Manager is accountable to either the CEO or shareholders, or both. Since IBP is about driving accountability, the ultimate owner of IBP must be one of them. Certainly, Finance plays a pivotal role and could be characterized as the right hand of the General Manager or the President within IBP.

Practitioners of IBP must learn to speak two languages: the language of operations, typically expressing plans in terms of units, lbs., kilos, tons, cases; and the language of finance, dealing in revenue, operating income, margin. Bringing the financial dimension into IBP is of vital importance. The evaluation of scenarios, exploring what ifs, and making sound decisions points to the need for active finance participation. This is of immense importance in evaluating the trade-offs between the various scenarios.

Connection to Strategy

Dean's article points out the linkage of mature IBP to company strategy. What I have found as both a practitioner and a consultant is that company strategy is not always clearly defined. If IBP is falling short of expectations, the company must reflect on how well articulated and how clearly communicated company strategy is. When asked about company or product strategy, I have found many people answer with financial goals. Financial goals are important, but they are not strategies. Strategies should answer the questions of "What are we going to do?" and "What actions are we going to take?" The flow is from aspiration to strategy to objectives to actions to tactics. IBP can then be a tremendously powerful mechanism to evaluate, assess, and course correct to ensure that we as a company are delivering to our company strategies, goals, and objectives. So as you assess your own IBP process, ask the strategy question of the people who are responsible and gauge the clarity of the response that you receive. Perhaps you will find an opportunity to sharpen the strategies of your company or communicate them more clearly.

Siloed Decision Making and Siloed Lenses

Dean makes the point that siloed decision making and silo-confined, outdated lenses are two of the barriers to successful, productive IBP. I am in total agreement. A practical example of how to combat these is the Management Business Review (MBR). The MBR is chaired by the General Manager or the CEO. All key functions are represented, typically by the leaders of those functions. As Dean has identified, Finance plays a key leadership role. In addition, by having the leaders of the company all at the MBR, we are making the best decisions for the company overall, and the chair of the meeting has the authority to make the final decision once all of the functional inputs have been evaluated.

The Five-Step IBP Process

Dean asserts that the five-step IBP process is outdated and missing steps. Many companies across multiple industries that are utilizing the five-step IBP

process would point out that IBP has enabled them to achieve outstanding results. The "missing" elements that are identified—financial integration, connection to strategy, cross-functional alignment—are all within the scope of my definition of best-in-class IBP. Oliver Wight has codified what those best-in-class attributes are in its recently updated 7th Edition of *Class A Integrated Business Planning* (<https://www.oliverwight-americas.com/>). The fact that the title includes "7th Edition" underscores that, with each edition, we make changes and updates that raise the bar to higher levels of performance.

Challenge Makes Us Better

Throughout his article, Dean urges companies and practitioners to improve upon our current understanding, think more broadly, and challenge the status quo. This is a good thing—this is how change happens, this is how we improve, and this is ultimately how the companies represented by the readers of the article will improve their results.



Pete Alle is an expert in Integrated Business Planning, Supply Planning, and Product and Portfolio Management, and Principal of Oliver Wight Americas.

peter.alle@oliverwight.com

Response to Pete Alle's Commentary

DEAN SORENSEN

Global manufacturers (GMs) struggle to manage complexity, which explains the value erosion shown in Exhibit 3 of my article. Theoretically, as Pete Alle writes in his Commentary, IBP should resolve this issue. In reality, it doesn't. My comments follow the organization in Pete's Commentary.

The Five-Step IBP Process

Pete states that the missing elements I defined—financial integration, connection to strategy, cross-functional alignment—fall within his definition of best-in-class IBP. Perhaps, but the means by which these elements are supported are not mature enough to cope with complexity. I described four management capabilities comprising strategic IBP: cost matrices, productivity management, trade-off management, and integrated scenarios. These capabilities fundamentally alter the nature and timing of activities within the traditional five-step processes. It's especially true that integrated reconciliation is an activity symptomatic of financial and operational processes that remain fragmented in most GMs.

Siloed Decision Making

Pete feels functional silos can be handled through MBR meetings. This may work for small manufacturers, but doesn't for GMs. The research results in my Exhibit 8 indicate otherwise. Without the four management capabilities, GMs lack formal methods that can resolve these issues.

How IBP Is Implemented

Pete states that "the structure and clarity of decision-making authority is of vital importance." I agree. Decision rights must be a central component of IBP. They must, however, be based on outcomes to be effective. This can't be achieved without the four management capabilities noted above. Their absence is one of the primary reasons why only 15% of organizations have effective decision-making structures (1). These capabilities are also essential for addressing "unwritten rules" that prevent changes to culture and behaviors (2).

Evolution of IBP

I agree with Pete that product and portfolio management are important to IBP. Effective portfolio management begins with customers. Commercial managers must translate customer value propositions

into targets for products, business processes, and functions, while also having decision rights to change related targets and allocated resources. In complex GMs, this can't be achieved without the management capabilities noted above. Their absence is one of the primary reasons portfolio management doesn't materially improve enterprise performance. It's why most organizations fail to achieve profitable growth and sustain cost reductions.

Connection to Strategy

Pete has overstated the effectiveness of traditional IBP in driving strategy. Mature IBP supports dynamic strategy processes, where strategy and related targets self-adjust to business and market changes. Effective portfolio management, as described above, provides the foundation. It enables GMs to answer two interrelated questions: How many people do we need? How much cash do we need? If you can't mathematically quantify these two things, your IBP processes aren't fully integrated. The absence of such capabilities is one of the primary reasons why cash-flow forecasting remains a significant challenge for GMs (3).

The Owner of IBP

Here, we'll agree to disagree, but I'll leave readers with one thought. I see no difference between mature IBP and rolling forecasts. From a design perspective, GMs should have one work flow and one (prescriptive analytics) model that support both processes. Given that there will be no difference between financial and operational processes, do you really think any CFO will give up control over budgeting and forecasting? I think not! So, from a pragmatic perspective, buckle up and get ready for Finance-led IBP.

1) Who has the D? How clear decision roles enhance organizational performance, *Harvard Business Review*, January 2006, (<https://hbr.org/2006/01/who-has-the-d-how-clear-decision-roles-enhance-organizational-performance>)

2) Beyond S&OP and IBP to Enterprise Planning and Performance Management, *Foresight*, Winter 2016, Page 29, Unwritten Rules

3) 2019 Cash Forecasting Survey - 5 key insights, CTM File, March 2019, (<https://ctmfile.com/story/2019-cash-forecasting-survey-5-key-insights>)

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Business Office: 53 Tesla Avenue
Medford, Massachusetts 02155 USA
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