Demand Management Best Practices: Process, Principles and Collaboration

Colleen Crum with George E. Palmatier

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The power of demand management is in the process itself — a formal, structured, and routine process in which each element of demand management operates at an optimum level. The elements of demand management are (1) plan, (2) communicate, (3) influence, and (4) manage and prioritize (see Figure 6).

When companies struggle with forecast accuracy problems, it is usually because one or more of the elements of demand management are not in place or not operating effectively. Demand management, in these cases, is superficial at best. The focus is typically on chasing orders to ensure meeting period-end or year-end targets and on expediting orders when the supply organization is unable to deliver orders when customers need the products.

The motivation for these sales activities is to react to a current need, which is the antithesis of demand management. The essence of demand management is being in control of the future by creating demand, influencing customers and the marketplace, and responding to changes in the marketplace. When the demand management efforts of companies are primarily on chasing orders, there is little focus on controlling the future. Not enough energy is spent on creating and influencing future demand, which keeps the company’s sales and marketing management in an endless loop of chasing orders.

In this chapter, we will focus on the principles of demand planning. Subsequent chapters will be devoted to each of the other elements of demand management. Specific issues subject to debate or requiring greater clarification, such as multiple views of demand planning, consensus planning, and the role of the demand manager, are covered in later chapters.
Notice that the first element of demand management is planning demand, not forecasting demand, although forecasting is part of planning demand. It is important to understand the difference between forecasting and planning. Webster’s Encyclopedic Unabridged Dictionary of the English Language provides the following definitions:

**Forecast**: To predict a future condition or occurrence

**Plan**: A scheme or method of acting, doing, proceeding, making, etc., developed in advance

Webster’s also states that “forecast has much the same meaning as predict; it is used today particularly for the weather or other phenomena that cannot easily be accurately predicted.”

The difference between forecast and plan is critical. Forecast connotes a lack of control — something that cannot be predicted with a high degree of accuracy. Plan, however, denotes action arranged in advance, which means that someone is determining and controlling the actions taken.

Too many people have the attitude that demand just happens and cannot be controlled. That is not true.

Think about it. Demand is the result of the actions a company takes to:
1. Develop products or services, and
2. Influence customers to buy those products and services

Some people call these actions demand creation.

Who is in the driver’s seat when it comes to creating demand? You are. And if you are in the driver’s seat in creating demand, you should be able to develop a demand plan that reflects the anticipated results of demand creation efforts.

Buying behaviors, competitors’ actions, and the health of the economy certainly influence the quantity of products and services that are purchased as well as the timing of those purchases. These external factors may be more difficult to control. Actions can be taken, however, to mitigate the negative effects of these factors. This is part of the responsibilities involved in influencing demand. The anticipated results of these and other efforts to influence demand should be reflected in the demand plan.

Some people resist the idea of forecasting, let alone planning, demand. They believe it is impossible to predict future demand with 100 percent accuracy, so why bother? This attitude creates an unrealistic expectation of the demand planning effort.

Consider Peter F. Drucker’s view on predicting the future:

To try to make the future happen is risky; but it is a rational activity. And it is less risky than coasting along on the comfortable assumption that nothing is going to change.\(^\text{15}\)

It is also less risky than proclaiming it impossible to predict the future as a justification for doing nothing to prepare for the future.

Instead of becoming overwhelmed because the future is hard to predict, a different mind-set is needed. That mind-set is: In essence, a demand plan is a model. The model is the result of anticipated product, sales, and marketing activities to create and influence demand. Albert Einstein once stated that “all models are wrong, some are useful.” The demand plan, while not perfect, is useful for:

1. Validating that the product, marketing, and selling plans and strategies will deliver the expected financial and market positioning results
2. Determining the resources required to produce, transport, and deliver product to customers
3. Developing financial projections of sales revenues, cash flow, and profit margins

It is assumed that a demand plan will not be 100 percent perfect. A demand plan over an 18- to 24-month planning horizon is imprecise and subject to
uncertainties. Imperfections should not be allowed to defeat the purpose of demand planning, however. Over time, greater precision can be added to the demand plan. In actuality, demand planning is a replanning process. Every month, the plan and supporting assumptions are updated, reviewed, and agreed upon. This is a best practice.

Replanning gives managers greater flexibility and control of the business. Knowing in advance that conditions are changing gives you the advantage of time to prepare. You can monitor the conditions over time and put plans in place to respond in the most timely and profitable manner. You gain the ability to control.

When imperfections in the plan arise, a process for managing these imperfections minimizes the negative impact on customer service, inventory, lead time or backlog, sales revenue, and profit margins. This process, the fourth element of demand management — managing and prioritizing demand, also gives you greater control.

Control starts with demand planning, however. So what is involved in developing a demand plan?

Demand planning is a process of planning all demands for products and services to support the marketplace over at least an 18-month horizon. This process involves updating the product, brand, marketing, and sales plans and assumptions each month and reaching consensus on an updated demand plan. The updated demand plan is communicated to the supply and financial organizations for reconciliation and synchronization. An increasing number of companies utilize a monthly sales and operations planning process to perform reconciliation and synchronization. The synchronization and reconciliation process is covered in detail in Chapter 14 on integration.

Once the demand plan is reconciled and synchronized, and thus approved for execution, the plan is communicated to the sales force. These communications enable salespeople to know what they are expected to sell and what will be available to sell. The effectiveness of communications frequently means the difference between a mediocre and an excellent demand management process. Communications is the linchpin of the demand management process and is covered in detail in Chapter 5.

Figure 7 depicts a best practice demand planning process. As you can see, the demand plan is based on multiple inputs — from the sales, marketing, brand, and product management organizations as well as statistical analysis.

The most frequently used statistical forecasting method is the time series technique. It uses historical data sequenced by time (days, weeks, months, etc.) and projects future demand by the same time sequence. Time series statistical forecasting is a component of the statistical analysis process for supporting demand planning. It is just one part of the input for a demand planning process for good reason. Reliance on a time series statistical forecast alone usually does
not yield the most accurate demand plan model. Other statistical analysis techniques also contribute to the demand plan. One such technique, regression analysis for evaluating the impact of business drivers on demand, is discussed in some detail in Chapter 8.

Each of the inputs into the demand plan has its advantages and disadvantages. The advantages of a time series statistical forecast are:

- It lacks the bias of human judgment, since it is based on historical demand data.
- It is an efficient method for forecasting a large number of end items.

Most time series statistical forecasting tools use mathematical algorithms to determine the patterns and trends of past demand and extrapolate those patterns and trends into a projection of future demand. The times series forecasting method predicts with a higher degree of accuracy when demand patterns are repeatable and future demand is not changing significantly from past demand. To accurately predict variability in demand, such as seasonal patterns, the time series forecasting method is usually most accurate when there are 24 to 36 historical data periods upon which to base the future forecast.

The next two figures (Figures 8 and 9) illustrate the strength and weaknesses of time series statistical forecasts. The demand history in Figure 8 is highly

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**FIGURE 7** Demand Planning Process (Copyright Oliver Wight International)
variable and does not appear to have much of a repeatable pattern. The statistical output provides guidance as to the accuracy of the forecast. The mean absolute percent error (MAPE) in this example is 0.50, or 50 percent. This means that the forecast has an error rate of 50 percent when the forecast numbers are compared to the historical demand numbers. The adjusted R square value is 0.27, or 27 percent. This means that 27 percent of the variation in historical demand is accounted for in the future forecast.

Some might argue that this is an unreliable forecast due to the error rate of 50 percent and that only 27 percent of the variation in past demand is accounted for in the forecast. Others might argue that the statistical forecast could be used as a starting point, and other input is needed to:

- Explain past peaks and dips in demand and whether they will occur again
- Validate the downward demand trend and how long it is expected to continue
- Understand the planned product, marketing, and sales activities and how they will impact future demand

The historical demand data in Figure 9 also have peaks and dips, but these demand patterns appear to be repeated year after year. The statistical output
shows a more accurate forecast than the projection in Figure 8. The mean absolute percent error is 0.07, or 7 percent. The adjusted R square value is 0.75, or 75 percent.

Some might argue that the time series statistical forecast is accurate enough to use as the demand plan. After all, it has an error rate of only 7 percent, and 75 percent of the variations in the historical demand are accounted for in the future projection.

Others might argue that input from the brand, marketing, and salespeople would better refine the model. They might be asked to explain whether:

- Variations in demand will continue to occur in the same way as in the past.
- Activities that are planned will cause different demand volume and timing than in the past.
- Changes will be occurring in the economy, other key business drivers, and with competitors that will impact demand for this product.

With time series statistical forecasting, it is dangerous to assume that history will repeat itself and customers will buy exactly as they bought the previous year. Even if your company does not plan changes in its activities to create demand (which is not likely), your competitors are probably taking actions to
increase their market share — at your expense. And even if your competitors are quiescent, the economy and other events can certainly influence whether, and when, customers buy your products. Just look at how home purchases and auto sales are tied to interest rates, for example.

Rather than assume that the past will repeat itself, it is better to ask certain questions about demand history. These questions are shown in Figure 10. The answers to these questions help to determine how much weight to place in the statistical forecast when developing the demand plan.

This is not to say that a time series statistical forecast does not have value. At a minimum, as seen with the examples in Figures 8 and 9, a statistical forecast can be a starting point. When demand is stable and few changes are expected that will alter the volume and timing of demand, the time series statistical forecast may be the most accurate input into the demand plan.

Time series statistical forecasting is also a necessity when a company produces hundreds or thousands of end items. It is folly to develop a demand plan for just a few major product lines. The turmoil caused by not planning the demand for the other products disrupts production. Unplanned demand competes against planned demand for raw material and production capacity. Customer service inevitably suffers, as do sales revenues and profit margins. Consequently, developing demand plans for all products and services is a best practice.
When your product portfolio includes a large number of end items, a planning strategy is needed to ensure that all of the items are adequately planned. A common strategy is to develop an aggregate, or family, plan by product type or category over at least an 18-month planning horizon for consensus planning. The demand plan at the item level can frequently be delayed as late as possible — until raw materials need to be purchased or, if the family uses common materials, until the product must be produced and assembled. The later that you can wait to specify the product mix, the closer in time it is to the actual sale. The closer in time to the actual sale, the better informed your sales organization will be as to what specifically customers will order.

A statistical forecast is of great value for determining the product mix forecast within product families if the mix is not expected to change significantly from the past. Statistical forecasting techniques are frequently used to determine the mix forecast when specific product attributes are not yet known by the salespeople and customers. The statistical forecast, in this case, is validated and revalidated as the salespeople and customers become more informed over time as to the specific products that will be ordered. Whatever is the best method for planning the product mix, the demand plan at the item level must be managed and controlled on a daily and weekly basis. The demand manager and supply manager or master scheduler typically work together to fine-tune the product mix plan.17

One view of demand alone is usually not enough to develop the most accurate demand plan, at either the aggregate or item level. The time series statistical forecast provides the historical, or backward-looking, view. Many statistical forecasting tools allow for manual adjustments of the forecast. These adjustments usually have some basis — and that basis is a forward view of anticipated demand.

Alan Greenspan, chairman of the U.S. Federal Reserve Board, has observed that “the best forecast is made with the freshest data.”18 The people with the freshest, forward-looking information reside on the demand side of the business — in the marketing, sales, brand, and product management organizations. These organizations know if new products are going to be introduced and the marketing and sales activities that are planned to create demand for these products. These functions know what advertising, promotions, and price tactics are planned and the anticipated impact these programs will have on demand; they have the earliest knowledge of whether a major customer is being acquired and the expected volume and timing of the resulting sales; and they also have the closest contact with the customers. This gives these functions the most up-to-date information on customers’ intentions to buy the company’s products and services.

Whereas a time series statistical forecasting tool is looking for repeatable patterns, the forward-looking input from the demand side of the business helps
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to explain the complexities and dynamics of demand. Figure 11 summarizes the forward-looking input that most sales, marketing, brand, and product organizations are capable of contributing to the demand plan.

As with time series statistical forecasts, forward-looking input from the demand side of the business has advantages and disadvantages. The primary advantages are:

- The inputs reflect the most current knowledge about customers, competitors, and the marketplace.
- The inputs are based on what is actively being planned and executed to create and influence demand.
- Customer interaction is involved in sales, marketing, and brand management activities, which provide greater insight on customers’ intentions, the strength of your company’s relationship with customers, the likelihood of retaining and expanding business with customers, and the probability of acquiring business from new customers.
- Varying and differing perspectives on demand help to reduce bias and prevent blind spots from occurring, which results in a more refined plan.

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Information</th>
<th>Planning Horizon</th>
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<tbody>
<tr>
<td>Sales</td>
<td>Customer plans&lt;br&gt;Individual salesperson plans&lt;br&gt;Territory/region sales plans&lt;br&gt;Sales strategy and tactics&lt;br&gt;Incentive plans</td>
<td>1–12+ months</td>
</tr>
<tr>
<td>Marketing</td>
<td>Market plans&lt;br&gt;Channel plans&lt;br&gt;Promotion plans&lt;br&gt;Pricing plans&lt;br&gt;Monitoring of key economic indicators&lt;br&gt;Business driver analysis and monitoring&lt;br&gt;Competitive analysis</td>
<td>1–18+ months</td>
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<tr>
<td>Product/Brand Management</td>
<td>New product development&lt;br&gt;Product launch plans&lt;br&gt;Product exit plans&lt;br&gt;Product life cycles&lt;br&gt;Product pricing plans&lt;br&gt;Brand and category plans&lt;br&gt;Competitors’ product tactics</td>
<td>1–18+ months</td>
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**FIGURE 11** Forward Input Required for the Demand Plan
Some people challenge the wisdom of involving the sales, marketing, product, and brand organizations in the demand planning process. A client in the computer peripheral industry, for example, wanted to base the demand planning process solely on time series statistical forecasting. The attitude was that sales and marketing do not know what they are doing; therefore, why consult them about the demand plan?

The authors find this to be ignorant thinking. The people in sales and marketing organizations certainly are not twiddling their thumbs. They are engaged in activities that will indeed create and influence demand. To cut them out of the process dooms the demand planning process to mediocrity if not failure.

The challenge is in engaging the sales, marketing, and brand management organizations in the demand management process — and in creating accountability for their efforts. This is imminently doable. Methods for obtaining multiple views regularly and routinely are covered in detail in Chapter 8.

This is not to say that forward-looking inputs do not have weaknesses. The most dangerous weakness is bias. Bias comes from a mind-set that is overly optimistic or pessimistic. It comes from having blind spots that shield a person or group from recognizing the true state of reality. In the telecommunications example given in the previous chapter, warnings were communicated that sales for telecommunications gear were going to be flat. Those signals were ignored due to misconceptions about the enduring strength of customer demand.

Bias also occurs as a response to other stimuli such as compensation programs. Case in point: The updated demand plan for a client in the wood products industry reflected a 30 percent reduction in demand. The assumptions upon which the plan was based had not changed significantly, however, when compared to the previous plan’s assumptions. External factors impacting the business were also not expected to change. So why the reduction in demand? It turned out that the company was in the process of establishing sales goals for the next year. Of course, the sales force wanted a highly attainable sales target. Its compensation was based on exceeding the annual sales goal; thus the sales plan was reduced to lower the target.

Through the sales and operations planning process, the proposed demand plan was challenged. The assumptions were reviewed and validated. The sales organization was asked to explain the reasons for the 30 percent reduction in demand, given that the assumptions had not changed significantly from the previous month.

In the end, only minor adjustments were made to the previous month’s approved demand plan, as it most accurately reflected reality. The sales input was obviously biased by internal activities in setting up next year’s compensation program.
This example illustrates the value of utilizing multiple inputs, or views. If the demand plan had been based solely on the sales organization’s input, the company would not have been prepared for the true demand that materialized. Multiple views provide varied perspectives that, when scrutinized closely, always result in a more precise plan.

A valuable perspective can be gained by comparing the demand model, resulting from input from the demand side of the business, to the historically based statistical forecast. An example is shown in Figure 12. The time series statistical forecast in this example is significantly lower than the demand plan based on the forward-looking input provided by the sales and marketing organizations.

The demand manager for a client in the mineral mining industry plots the time series statistical forecast against the forward-looking demand plan for each product family every month. When significant deviations occur between the two models, he challenges the sales and marketing assumptions. He asks: What are you doing or plan to do that will cause the volume and timing of demand to be different than the past? Sometimes efforts are not being undertaken to significantly increase demand volume. When this is the case, the demand manager gives the time series statistical forecast greater weight in the demand plan.

This analysis also assists sales and marketing executives in their management efforts. It helps them to assess whether their organizations are taking the proper
actions to grow demand and increase sales revenue. It also helps prioritize where to best focus their time and attention on creating future demand.

Comparing the time series statistical forecast to the forward-looking demand plan becomes a “sanity check.” It is an effective tool for rooting out bias and ascertaining whether activities and plans are in place to significantly alter future demand, compared to past demand performance. It is one method of ensuring that demand plans are grounded in reality.

The two examples given above — the sales organization reducing its sales plans to gain a more achievable compensation target and using the time series statistical forecast as a sanity check — illustrate another best practice for demand planning: documenting and reviewing the assumptions upon which the plan is based.

In reality, when there are significant errors in the demand plan compared to actual demand, the plan numbers are not what prove to be inaccurate. The assumptions on which the plan is based are usually incorrect and the root cause of the demand plan inaccuracies. Therefore, to improve demand plan accuracy, the assumptions must be documented and carefully reviewed, challenged, monitored, and updated. Documenting and managing assumptions is covered in detail in Chapter 8.

When assumptions are not included as input into the demand plan, the demand numbers should be considered to be lacking validation. An unvalidated plan is always at greater risk for inaccuracies than a plan in which the assumptions have been reviewed and clarified. After all, the plan numbers are the result of the assumptions about demand creation efforts, customer buying behavior, and the state of the economy and other business drivers, not the other way around.

Paying close attention to assumptions has other benefits. It spurs greater understanding of the factors that influence demand, which in turn results in the development of a more accurate demand plan. It also enables the demand side of the business to demonstrate to the rest of the company that it has a firm grasp of the factors that influence demand.

Demonstrating that the demand plan has been well thought out is crucial for the supply and finance organizations to trust the plan. When these organizations trust the demand plan, they are more confident in using the demand plan to drive their projections.

Likewise, when the marketing, sales, and product organizations see that their input is used and useful, they are more diligent in providing input to the demand plan. When the demand side of the business sees that its efforts are helping to make product available when it said it would be needed to fulfill demand, it sees the value of the process. And when it sees the value of its efforts, it is more willing to participate in the process. This win–win creation starts with documenting and validating the assumptions upon which the demand plan is based.
This brings us to two other best practice principles for demand planning:

- The demand plan represents products and services that customers are expected to purchase. It is not restricted by perceived or expected supply constraints. This is commonly called an unconstrained demand plan.
- The demand plan is a request for products and services. It is what the demand organization believes customers are going to buy. The demand organization is committed to executing the demand plan to ensure that customers do buy these products and services.

Constraining the demand plan because of supply limitations has several pitfalls. Imbalances in demand and supply will not be visible soon enough to respond and thus usually cannot be addressed quickly enough to accommodate all of the demand. The supply organization will have little motivation to operate more effectively, reduce lead times, and increase capacity if it does not see the need to do so. Inevitably, sales will languish, making it difficult to achieve sales revenue goals and grow the business.

Conversely, the demand plan should recognize that there is probably more market potential than a company is capable of serving. Consequently, the demand plan should only be constrained by the demand organization’s ability to create demand and generate sales (Figure 13).

If the demand plan is unconstrained by supply limitations and truly represents the sales the demand side of the business expects and is committed to

![Total Market Potential](image)

**FIGURE 13** The Demand Plan Is Unconstrained by Supply Capability (Copyright Oliver Wight International)
generate, then the demand plan is actually a request for product. It is not wishful thinking. It is based in reality, factoring in the demand organization’s ability (and limitations) in stimulating demand and generating the sales.

Thinking in terms of the demand plan being a request for product is an important psychological motivator. Remember the discussion at the beginning of the chapter about the difference between a forecast and a plan? A plan means action, and action means control. If the demand organization has control, it should be able to determine the volume and timing of product that it desires to request to be produced on behalf of the customers.

Consider, too, the risk of forward-looking inputs. They can be biased — either overly optimistic or overly pessimistic. One way to eliminate bias is for the demand organization to ask every month: Is this the product we really want to request? And do we understand that if we request product, we are committed to creating the demand for that product?

These questions provide safe ground for validating the demand plan before it is communicated to the supply and financial organizations. The authors have seen this questioning eliminate the hedging that can occur for selfish reasons such as wanting shorter hurdles for attaining compensation incentives based on sales revenues. Here is how it works:

- If you request the product and do not sell it, you are responsible for the inventory, increased working capital, and reduced profits that result.
- If you do not request the product and do sell it, there will be no assurance that product will be available to fulfill the demand. Reduced or delayed sales revenue will result and customer service will suffer. In many companies, those salespeople who requested product get first priority for that product.

The demand organization is typically not used to thinking in these terms. Members of the demand organization may not recognize that their actions or inactions impact the company as a whole (for example, the cost of building unneeded inventory when demand does not materialize as planned). A focus on requesting product creates greater accountability for the quality of the demand plan and for executing the demand plan. It creates accountability for “doing what you say that you’re going to do.”

Thinking of the demand plan as a request for product creates a safety valve in another way. It can prevent wishful thinking from taking hold. As George W. Bush has observed, “Wishful thinking might bring comfort, but not security.”

At times, there can be pressure to force the demand plan to closely approximate the business plan. This is foolhardy when reality shows that sales revenues are unlikely to materialize at the rate stated in the business plan.
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Thinking of the demand plan as a request for product helps executives resist the urge to arbitrarily make the demand plan numbers match the sales revenue numbers in the business plan. It gives them the ability to think through the ramifications of forcing the demand plan to match the business plan. The question can be asked: What are the implications if demand does not materialize as planned in the business plan and we produce to the business plan rate? Of course, the answer is: In addition to lower sales revenues, unneeded inventory is built, resulting in less available capital and lower profits.

Thinking through these ramifications, executives can ask and answer: Do we really want to take that financial risk? Would we be better off producing to the current reality and working to narrow the gap between the business plan and the demand plan? Once the gap is narrowed, then we can produce at the new realistic rate.

As shown in Figure 7, the business plan and strategy is an input into the demand plan. The primary purpose of this input is as a senior management tool. Think back to one of Philip Kotler’s key points on demand management introduced in Chapter 2. Demand creation efforts should not just stimulate demand, but should influence demand so that a company’s objectives are achieved. Senior executives on the demand side of the business need to know whether demand creation efforts will result in achieving the sales revenue objective stated in the business plan. A comparison each month of the sales revenue projections resulting from the demand plan to the sales revenue projections stated in the business plan will give them this knowledge.

Figure 14 shows a gap between the sales revenue that will be generated by the demand plan and the business plan objective. The –3, –2, –1 indicate the past three months of history. The 1, 2, 3, etc. indicate each forward-planning period. An 18-month future planning horizon is used in this example.

In this example, the sales revenue that will be generated from the demand plan is less than the business plan objective. Does this mean that the demand plan should be changed to increase the planned sales revenues? Not necessarily, and especially not if the status quo is expected in marketing and sales activities.

The revenue stated in the business plan is a target. The business plan, like the demand plan, is a model; it is not a perfect prediction of a company’s financial performance.

Senior executives should be managing to meet the objectives of the business plan. When there is a gap between the demand plan and business plan, as in the example above, it should trigger action to narrow the gap.

The demand consensus review is an excellent forum for reviewing the actions planned to narrow the gap between the demand plan and the business plan objective. This is also the proper forum for determining when the expected results from these activities should be reflected in the demand plan.
Note in the example above that the planning horizon is 18 months. Using a planning horizon of at least 18 months is a best practice. There are several reasons why:

- First, an 18-month or longer planning horizon allows enough time to act when it appears that the demand will not generate the sales revenues stated in the business plan. It also allows enough time to act when demand exceeds your supply capability. In the authors’ experience, the time to make significant change to markets, customer base, products, suppliers, and production capacity always takes longer than people believe.

- Second, when you reach midyear, you will have a view of the next year’s demand plan. This usually gives executives ample time to ensure that the strategies and tactics are in place to achieve the next year’s demand plan. The demand plan thus drives the revenue plan for the annual business plan.

Many companies that use this planning methodology find that developing the annual business plan becomes a nonevent. The work has already been done, and
it is usually of higher quality and more reliable than the plans generated in an annual business planning process. After all, the demand plan is reviewed and updated every month. When it is time to create a business plan, it will have been reviewed, refined, and updated six or more times.

One purpose of demand planning is to create as credible a model as possible for driving business plan projections, financial projections, and supply planning projections. The most credible plans result from a replanning process that utilizes a sufficiently long planning horizon to allow enough time to respond to both problems and opportunities.

The updating, or replanning, of demand plans is not a periodic event. It is performed monthly and monitored continuously. Consequently, it requires full-time attention, which is why companies assign a full-time demand manager to the task. Depending on the size of the company and its structure, the full-time demand manager may be supported by demand planners and analysts as well.

The demand manager is the focal point of the demand planning process (see Figure 15). The various inputs into the demand plan are communicated to the demand manager. The demand manager assimilates these inputs, replans appro-

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**FIGURE 15** Role of the Demand Manager in Demand Planning (Copyright Oliver Wight International)
appropriately, and proposes an updated demand plan. The updated demand plan and assumptions are reviewed at the monthly demand consensus review.

The demand manager facilitates the communications with the demand organization during the process of updating the demand plan. The demand manager is also responsible for communicating the approved updated demand plan to the supply and financial organization for synchronization and reconciliation. (See Chapter 9 for a description of the demand manager’s complete responsibilities.)

The demand manager is not the only person in the demand organization responsible for communications. Communications is the second element of demand management, and it is so important that it deserves its own chapter.

**SUMMARY OF BEST PRACTICES FOR DEMAND PLANNING**

1. The demand plan is based on inputs from the marketing, sales, brand, and product organization as well as statistical analysis.
2. There is recognition in the demand, supply, and finance organizations that the demand plan is a model and that all models are wrong, but some are useful.
3. The demand plan is used to validate that the product, marketing, and selling plans and tactics will deliver the expected financial and market position results.
4. The demand plan is used to drive the financial and supply projections.
5. The demand plan is updated at least monthly.
6. An aggregate demand plan and item demand plan are developed monthly. Both plans are communicated in units and resulting sales revenues by time period.
7. The assumptions upon which the demand plan is based are monitored, reviewed, and updated at least monthly.
8. The demand plan is not constrained by supply limitations; it is only constrained by the demand organization’s ability to create demand and generate sales.
9. The demand plan is considered a request for product by the demand organization. The demand organization recognizes the financial and customer service impact when the demand plan is inaccurate.
10. The demand plan and business plan are not arbitrarily forced to match. Projection of the revenue generated by the demand plan is compared each month to the sales revenue objective stated in the business plan. Senior demand executives focus on the strategies and tactics required to narrow
any gap between the demand plan revenue and the sales revenue objective in the business plan.

11. A full-time demand manager is assigned to support the demand planning process.

QUESTIONS

1. If you were to design a demand planning process, what would be the most important elements to include in the process?
2. What is the difference between a demand forecast and a demand plan?
3. What are the advantages of a statistical forecast?
4. What are the disadvantages of a statistical forecast?
5. What are the advantages of forward-looking input from the demand organization?
6. What are the disadvantages of forward-looking input from the demand organization?
7. Why is the documentation, review, and monitoring of assumptions important? What do you lose when you do not document and review the assumptions?
8. Why is it advantageous to consider the demand plan a request for product?
9. Why should the demand plan not be constrained by supply limitations?
10. How should the business plan and strategy input be utilized in the demand planning process?
11. What are the risks of arbitrarily matching the demand plan to the business plan objective of sales revenue?
12. Why is an 18-month or longer planning horizon advantageous?
13. What is the role of the demand manager in the demand planning process?