Informative guides on industry best practices

OLIVER WIGHT PAPER series

Boost Performance

Connect Strategy and Execution Through Integrated Business Planning

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Imagine the **possibilities**, realize the **potential**.

Many companies struggle to bring their corporate strategies to fruition. They simply fail to execute.

In our experience, there are exceptions to this all too common outcome. The difference between companies that execute their strategies and those who do not? Frequently, it is Integrated Business Planning (IBP).

Over the years, the authors have observed these trends:

- As IBP matures within companies, it becomes more strategic in nature, rather than having the sole purpose of aligning demand and supply.

- As business leaders with IBP experience take on new jobs in new companies, they bring their IBP experience – and expectations – with them. Increasingly, they expect IBP to be how they manage the business, connecting strategy to execution.

These trends make sense. Integrated Business Planning is a proven way to bring strategy to life. It creates a structure to clearly identify strategic intent and then monitor execution in the monthly IBP reviews.

Integrated Business Planning is also a decision-making process. It provides business leaders a venue to review actions and make decisions to keep execution of strategies on track.

Figure 1

What Is Integrated Business Planning?

Integrated Business Planning is a decision-making process to align strategy, portfolio, demand, supply, and resulting financials through a focused and exception-driven monthly replanning process. The result is a single operating plan, over a 24+-month rolling horizon, to which the senior executives hold themselves and their teams accountable for achieving. Done well, it is the formal way that the business is managed and strategy is connected to execution.

Strategy and Its Connection to Execution May Not Be Fully Developed

Strategy and execution – synchronized and integrated – are essential to achieving business success. Yet, strategy is often misunderstood, misapplied, and under-regarded.[1]

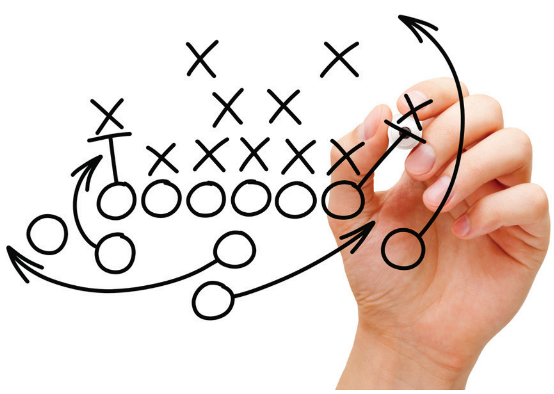
Across the business landscape in all industries, we frequently see the following:

- Vision and aspirations described as strategy.
- Financial objectives described as strategy.
- Strategies not clearly defined and communicated and, consequently, not actionable.
- Strategies not integrated into the fabric of how the company is operating.

For example, a company may have a vision and aspiration: "To be the dominant player in our product category." Accompanying this vision is a financial goal: "To grow revenue in the product category by 10 percent in the first year."

The pitfall of this company's approach? Business leaders consider the vision, aspiration, and financial goal as their strategies but have not made them actionable.

Strategy is an overall game plan or blueprint that guides the organization toward achieving its objectives.[2] Strategy answers the question: What are we going to do?



Tactics are the detailed, individual activities for carrying out the strategy.[3] Tactics answer the question: How are we going to do what the strategy states?

Without identifying actionable tactics, strategies are nothing more than a document created each year that gathers dust on the shelf. The effort barely moves the needle in improving business performance.

[1] Gary Hamel and C.K. Prahalad, Competing for the Future, Harvard Business School Press, 1996, pg. 308
[2] Charles D. Schewe and Alexander Hiam, The Portable MBA in Marketing, John Wiley & Sons, Inc., 1998, p. 26
[3] Ibid

Here's how the company in our example can turn their vision into strategy and tactics (see Figure 2):

- Vision and Aspiration: Be the dominant player in our product category.
- Product Strategy: Introduce Product X, which is successful in market testing, across North America.
- Go to Market Strategy: Utilize our broker network to sell the product into key distributors in the Americas and Europe; and exploit additional channels, including online channels and omni channels, to maximize penetration.
- Supply Chain Strategy: Use third-party manufacturing and distribution for all new product introductions.

These strategies can also be further developed to include supporting tactics.

Figure 2

The development of product strategy is the critical driver to converting vision and aspirations into strategy. Portfolio analysis helps to frame strategic discussions, decisions, and direction for an organization.

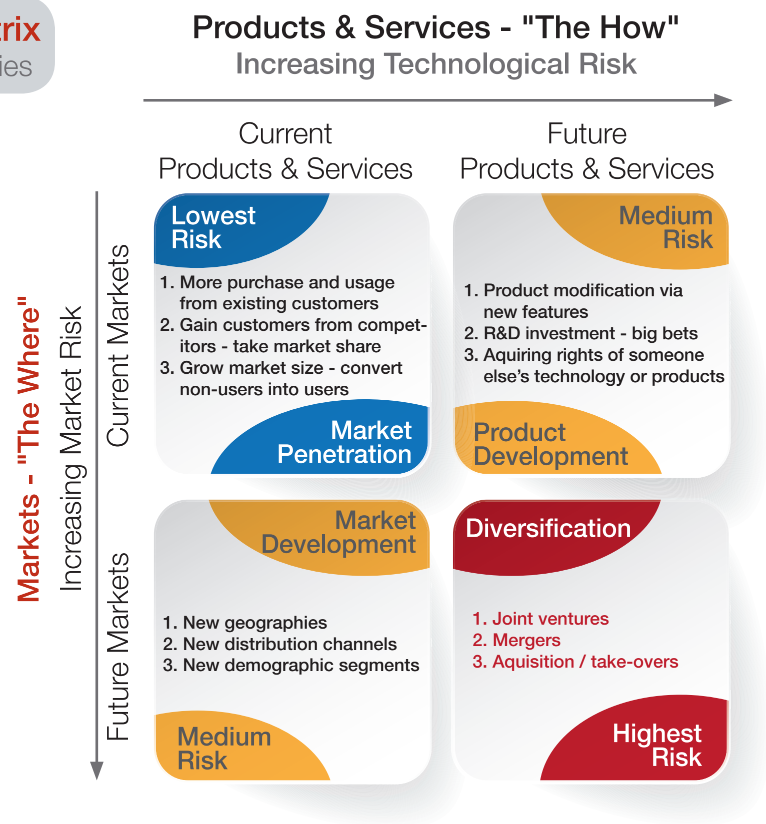
It is important to present the output of the portfolio analysis in a way that is easy to grasp the opportunities for growth. In assessing the opportunities, business leaders also need to understand market attractiveness and competitive landscape. Figures 3 and 4 show examples of matrices that are commonly used to present the competitive analysis.

Figure 3

Ansoff Growth Matrix
Primary Growth Strategies

Market Penetration:
Selling more of the same products to the same types of consumers

Market Development:
Selling existing products to new types of consumers

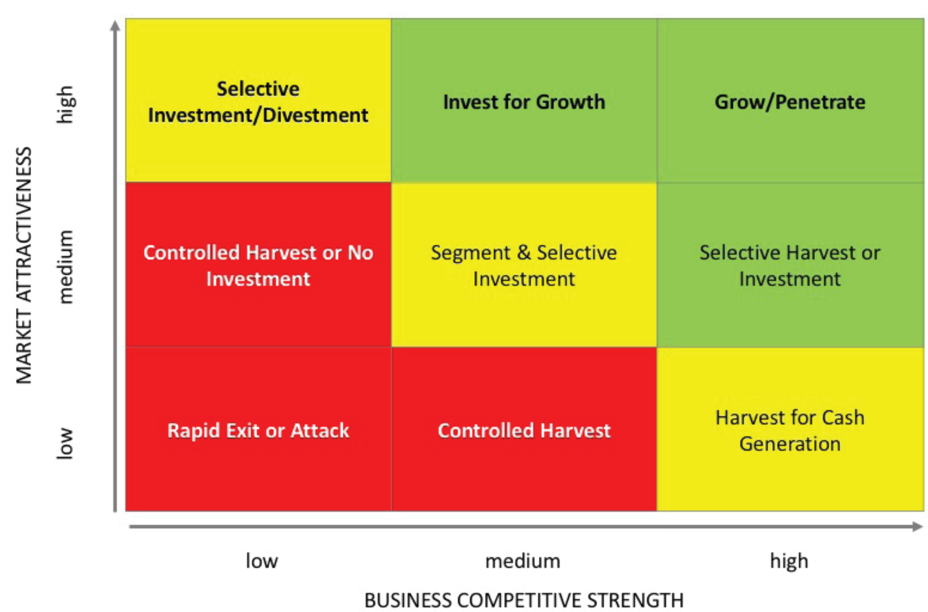


Product Development:
Selling new products to existing consumers in existing markets

Diversification:
Selling new products to new consumers in new markets

GE McKinsey Matrix

Figure 4



Both matrices are frequently used communication tools. The Ansoff Matrix was introduced in 1957, and the GE McKinsey Matrix was introduced in the 1970s.

Many Oliver Wight clients use a summary presentation of the product and market growth strategies in the IBP process. Figure 5 is an example of showing the status of a strategy by market region. It is intended to communicate the status at a glance.

Figure 5

Strategy	Grow	Selective Investment	De-Emphasize
Regions			
N. America			
UK			
Cont. Europe			
Nordics			
Asia			
Japan/South Korea			
AZE			

IBP Creates the Framework to Connect Strategy and Execution

Even when a vision and aspiration are converted to strategies and tactics, the effort is fruitless unless those strategies and tactics are well executed. All too often, business leaders learn at the end of the year that the expected results from the strategies are not going to be realized. The news comes as a surprise and disappointment. A common response: Why did I not know sooner?

Poor execution of strategies has plagued businesses for decades. A Harvard study in 1996 found that only 40 percent of organizations had established formal systems to help execute their strategies.[4]

A recent poll conducted by Oliver Wight confirmed that the struggle to execute strategy persists. We asked nearly 100 individuals in client companies: How tightly integrated is strategy to planning decisions, and does strategy influence plans for execution?

Only 8 percent of those polled completely agreed that strategy was tightly integrated with planning decisions and execution in their companies. Thirty-two percent either did not agree or only slightly agreed.

[4] Robert S. Kaplan and David P. Norton, The Execution Premium, Harvard Business School Publishing Corporation, 2008, pg. 3-4.

This finding validates the authors' personal experiences as well. We witness the need for improved integration of strategy on a daily basis. We find that companies lack a structure to more tightly connect strategy and tactics into the fabric of how the company operates.

We also have worked with companies that effectively connect strategy, tactics, and execution. In these organizations, leaders ask and ensure that the following key questions can be answered with a sure "Yes!":

- Are the strategies clearly articulated and communicated?
- Are the strategies integrated into how the company is operating?
- Are the strategies effectively monitored for execution in a way that delivers the intended business benefits?

In our experience, Integrated Business Planning provides the structure for achieving the intent of the above three questions.

During the monthly reviews as part of IBP (Figure 1), strategy should always be considered, and execution should always be reviewed and monitored. Note the designation in Figure 1, "Strategy and Business Plan Performance," in the center of the IBP diagram.

Strategy provides the context for decisions and choices made in IBP. Measurement of performance enables problems with execution to be identified and acted upon early, rather than when it is too late. Monitoring the execution of strategies every month eliminates those unpleasant surprises at the end of the year.

Example: How IBP Is Used to Connect Strategy to Execution

Following is an example of how IBP is used to connect strategy and execution. The example is based on many years of experience helping business leaders to implement and operate IBP.

Space in this white paper permits only providing an overview of how strategy and execution can be linked through IBP. *The Oliver Wight Class A Standard for Business Excellence* provides more details. See the chapters on managing the strategic planning process and Integrated Business Planning.[5] The authors are also available to answer any questions you may have.

Our example company has a strategy that calls for growing margin to improve profitability and return on invested capital. Key to growing margin is the introduction of new, more profitable products and more effective rationalization of existing products.

As part of its product management and innovation processes, the company has mapped potential product portfolio choices against the company strategies. Matrices, based on BCG Matrix and Ansoff Matrix, were created. These matrices were helpful in determining which products and market segments to invest in, which ones to harvest, and which ones to divest.

The decisions made resulted in a product strategy and tactics that are monitored each month in the IBP Product Management Review. Following is a description of how strategy is embedded in three of the IBP monthly reviews – Product Management, Demand Management, and Supply.

[5] The Oliver Wight Class A Standard for Business Excellence, Seventh Edition, John Wiley & Sons, 2017, pg. 1-16, 47-61.

Product Management Review

Participants in the Product Management Review, led by the Vice President of Portfolio Innovation, are intimately familiar with the strategy to increase product margin. They also participated in the product rationalization and new product decisions that were made.

During the Product Management Review each month, an analysis of margin performance is reviewed. The status of divesting lower margin products is also reviewed. Reviewing this information enables the product leaders to confirm that the strategies are still valid and that execution is on track.

This review showed that additional design resources were needed to ensure that the timelines for the development of one new product were not delayed. The product is scheduled to launch early next year, and the design must be ready for market tests in the third quarter. Raising the issue now, in February, provides ample time to solve the resource issue.

In the Product Management Review, a “surprise” issue is also addressed. During the product rationalization, one product was determined to have little competition, which enabled commanding a higher sales price and resulted in higher margins. The bad news: Cost of the raw material for this product unexpectedly increased, significantly lowering the margin.

During the Product Management Review, a team is tasked to recommend tactics to improve the margin, including sourcing, pricing, and promotion investment. The team will bring recommendations to the Product Management Review the next month.

The coordinators for the Demand and Supply Reviews attend the Product Management Review. They will communicate to their review teams the situation and ask that they respond with information needed by the product team.

Demand Review

The commercial organization knows the company's strategy is to drive sustained profitable growth. They also know that this strategy is complicated by an intense competitive struggle to sustain market share in key product categories in North America. That is why their Go-To Market Strategy and Tactics include several initiatives to invest in new channels and markets in Europe, offering both existing and new products.

During the Demand Review, the assumptions behind the volume and financial projections are reviewed over the 24-month planning horizon. Knowing that additional resources are needed to design one key new product, the Demand Manager is tasked with keeping tabs on whether the market test will be delayed. If so, the timing of the volume and financial projections will need to be shifted further out in the time horizon.

The participants in the Demand Review are not comfortable with the volume and financial projections of the products that will be sold into the European channels. The efforts to establish broker networks and distributors are slower than anticipated. The Director of Commercial Development in Europe is assigned to report back next month on actions required to be ready to sell products into Europe according to the strategic timeline. If the timeline will not be met, the team knows that actions will need to be taken to make up the revenue gap that will be created.

The VP of Commercial Development, who leads the Demand Review, asks that the chart showing the status of strategic initiatives be updated. He wants the Europe initiative to be shown in yellow – indicating it is at risk.

Supply Review

The participants of the Supply Review, led by the Vice President of the Supply Chain, endorse the company's strategy to achieve more profitable growth. Product costs are monitored and reported monthly. Costs are a consideration when creating the supply plan.

The Supply leaders operate with the principle that the volume demand plan approved in the Demand Review is a request for product. The Supply organization is responsible for developing a supply plan that does not constrain the demand plan, if at all possible.

If demand and supply cannot be aligned, recommendations on how best to fulfill the demand plan are presented in the Supply Review. The decision on constraining the demand plan is made during the Reconciliation Review and the Management Business Review (see Figure 1).

In creating the supply plan, it becomes obvious that demand will outstrip production capacity beginning mid-year for three products – a high-margin product, a mid-margin product, and a low-margin product. A spike in demand for the high-margin product is also expected in the third quarter to support filling the distribution centers with product in Europe.

During the Supply Review, the leaders decide that production of the low-margin product can be outsourced, but margin will be reduced by five points. They do not recommend outsourcing the production of the high- and mid-margin products. The manufacturing processes are too complex, and outsourcing could put product quality at risk.

The Supply Review leader is assigned to work with the leaders of the Product Management Review and Demand Review as well as the Finance manager to prepare recommendations for the Reconciliation Review. The discussion will focus on how to mitigate the impact of increased production cost for the low-margin product. Can the selling price be increased? Can planned promotion programs be changed to save costs without impacting sales volume? Are there other ways to reduce product costs, such as procurement and distribution costs, that need to be considered?

Integrated Business Planning and Measures

Companies with successful Integrated Business Planning processes adopt this behavior: Good and bad news early is better than late. One way to convey good and bad news is through performance measures.

The General Manager or President of the business owns the Management Business Review. The leaders who participate in the Management Business Review want and need to see measures that are linked to key strategies and tactics. They need to know the "news" of the business – good and bad.

In our case example, margin performance is a key measure to report in the Management Business Review. So, too, is the status of the initiatives that are critical to sustaining profitable growth. The obvious measures reviewed in the Management Business Review should include:

- Margin, segmented by product grouping and overall for the business.
- Progress in introducing the products in Europe.
- Revenue by region.
- Market share by region.
- Market penetration, by country in Europe.

It is helpful to present the measures in trend charts, using the power of visual displays to focus attention on trends over time.

Another best practice behavior for Integrated Business Planning is: Manage by exception. To that end, many companies use red-yellow-green color coding of measures to indicate what needs most attention (red), where there is risk (yellow), and what is performing as expected (green). This approach also shows trends over time, which makes it easy to determine whether performance is trending in the right direction.

Integrated Business Planning Pays Off

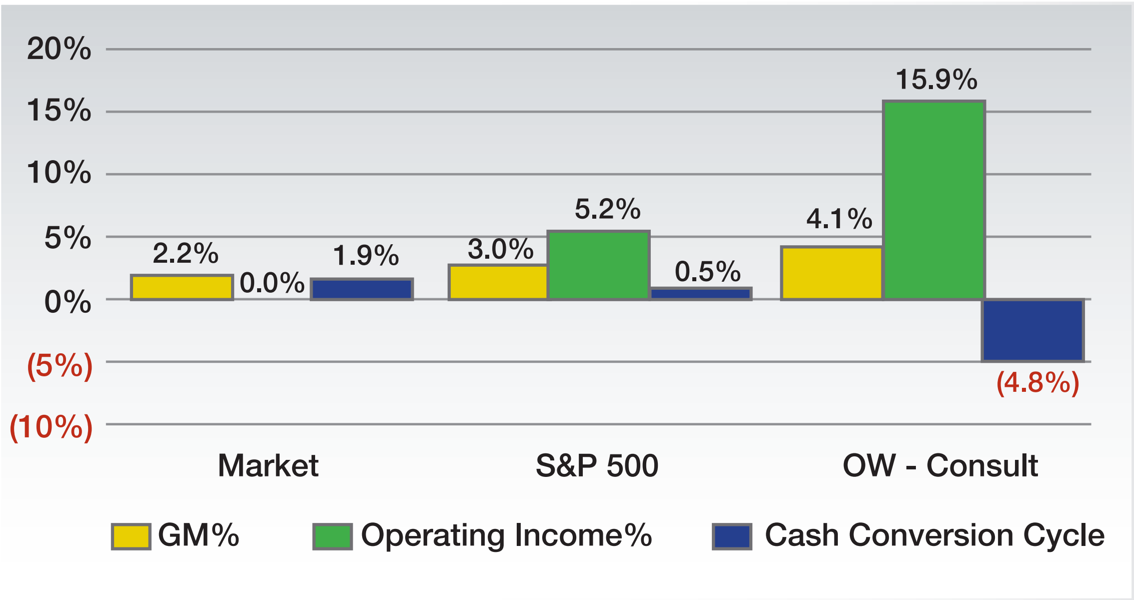
We are frequently asked by business leaders: Is Integrated Business Planning worth it? After all, IBP is a senior management process, and the participation of senior leaders is required for IBP to be used to effectively manage the business.

Oliver Wight regularly monitors companies' performance to measure whether IBP is worth the involvement of senior leaders. Operating margin over a five-year period is one measure of performance that we monitor. Here's what we have learned:

Companies that have implemented Integrated Business Planning outperform companies that do not have an IBP process.

We continuously monitor companies across a variety of industries. For example, for the S&P 500 within the core industries that we follow, the operating income increase has been 5.2% over a five-year period. During that same time frame, the gains for Oliver Wight clients are significantly higher at 15.9% (see Figure 6).

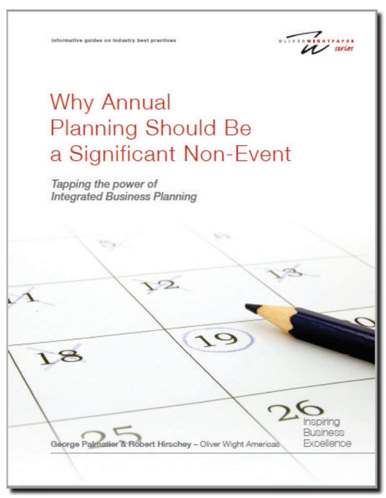
Figure 6
Operating Income Change % - 5-year change



In the authors' experience, connecting strategy to execution in the IBP process is key to achieving significant increases in operating margin. The authors are happy to discuss how to improve your company's operating margin or how to apply information in this white paper. Feel free to call or email us at: 800-258-3862 or info@oliverwight.com

ADDITIONAL READING:

Todd Ferguson,
Want to Execute Your Strategy and Improve Financial Performance? Focus on Demand Management



George Palmatier and Robert Hirschey, Why Annual Planning Should be a Significant Non-Event

Lloyd Snowdon,
Strategic Planning: Bring the Future Forward

ABOUT THE AUTHORS

Peter Alle, a principal with Oliver Wight, has extensive experience as a supply chain leader. His passion is to build corporate planning and execution capability with a focus on Integrated Business Planning. His most recent assignment prior to joining Oliver Wight was Vice President of Supply Chain for a dairy in the Midwest U.S.

Peter also led business transformation improvement initiatives, including the global implementation of Integrated Business Planning, for a multi-national consumer goods/food business.

Peter's clients include companies representing a broad cross-section of businesses, including fast-moving consumer goods, technology, custom manufacturing, and a large government enterprise.

Todd Ferguson, a principal with Oliver Wight, has helped companies implement Integrated Business Planning and Demand Management in a wide range of industries. These industries span consumer packaged goods, fashion and apparel, heavy industry, and chemical sectors.

Prior to joining Oliver Wight, Todd led process improvement initiatives for Weir Oil & Gas, St. Jude Medical, and Pilgrim's Pride, focusing on Demand Management and Integrated Business Planning.

ABOUT OLIVER WIGHT

At Oliver Wight, we believe sustainable business improvement can only be delivered by your own people. So, unlike other consultancy firms, we transfer our knowledge to you; knowledge that comes from nearly 50 years of working with some of the world's best-known companies.

The Oliver Wight Class A Standard for Business Excellence is recognized by organizations and industry commentators as the definitive measure of business excellence. We have a long-standing reputation for innovation; we continually challenge the industry status quo, so you get the latest in fresh thinking around core business processes and their integration with people and technology.

Your Oliver Wight partners will coach, guide, and inspire your people to drive change throughout your organization, allowing you to create a culture of continuous improvement and innovation that simply becomes, for you, 'the way we do things.' We call our approach to change management the Proven Path; it's a proven, sustainable approach that will transform your business performance and deliver results straight to the bottom line.

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