



INTEGRATED BUSINESS PLANNING

Drive strategic value across the enterprise with integrated business planning

Integrated business planning (IBP) is a business-focused evolution of traditional sales and operations planning (S&OP) that aligns sales, business strategy, and operations with enterprise-wide financial performance.

While S&OP exists in some form in most organizations today, few have implemented an S&OP process that fully integrates all aspects of the supply chain. Companies have implemented an S&OP process with a primary focus on demand forecasting, with less focus on demand supply synchronization due to operational change considerations, logistics, and enterprise financial goals.

A common reason for this disconnect is inadequate alignment between executive leadership, senior managers, and other people handling detailed operations.

Planning for today's supply chain with IBP

IBP improves the effectiveness of S&OP processes by working to enhance organizational alignment and synchronization across all functions to deliver end-to-end enterprise value. This planning approach supports an enterprise-wide demand plan, balance of supply and demand, and the integration of both financial and operational planning. IBP also links high-level strategic plans with day-to-day operations.

According to Gartner, many companies are challenged with developing an effective IBP strategy due to:

- A lack of strategic direction, or poor communication of value messaging
- Poorly structured or loosely integrated business processes
- Poor management of lead times in the planning cycle
- Fragmented, isolated systems and excessive use of Excel

Siloed system architecture and disconnected data sets do not provide the data integrity and breadth of decision support required to plan today's complex, end-to-end supply chains.

Moving from traditional S&OP to IBP

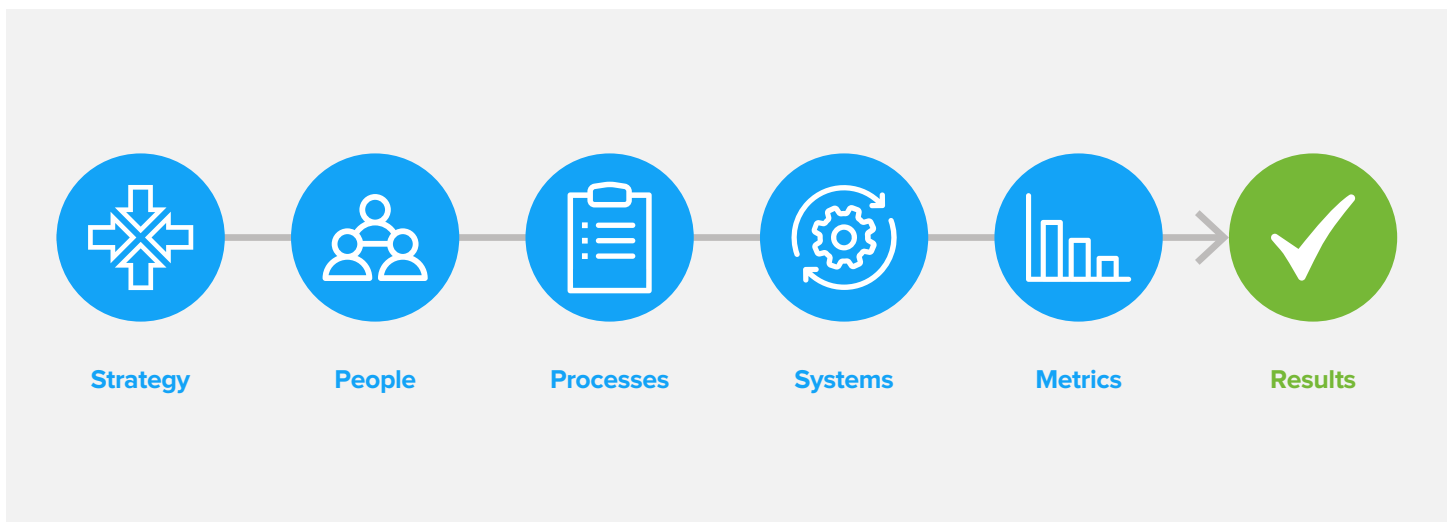
While S&OP delivers significant value to businesses, namely in demand management, it has often been constrained and limited as an operational tool. This is because it is not an integrated process for the whole enterprise with all its strategic business units. S&OP provides the greatest value to an enterprise when linked and aligned with *both* its strategic and financial outcomes.

S&OP considers supply chain processes in isolation for local business units, while IBP builds on S&OP to ensure business focus, alignment, and synchronization across all functions of the enterprise. Traditionally, it has been challenging for S&OP solutions to link day-to-day operations with the broader strategic objectives of the company. With IBP, a wider range of stakeholders are involved in the strategic and operational supply chain decisions so that the supply chain can truly drive the financial success of the entire enterprise business.

IBP offers:

- Integration with financial and budgeting processes
- Inclusion of strategic initiatives and planning activities
- Improved simulations and "what-if" scenario modeling

Figure: Integrated Business Planning Framework



Strategy

The first critical step is to align corporate and business unit strategy to the overall supply chain strategy, and then migrate to an aligned operating model. This model provides the framework for the IBP process. With a comprehensive understanding of corporate strategy, an optimal supply chain structure and operations can be designed.

A strategically-aligned IBP process can deliver game-changing benefits to the business. Rather than focusing solely on sales revenue, or simply balancing supply and demand projections, IBP can help practitioners make decisions that generate the highest profit for the entire company.

People

The IBP project lead is ideally assigned from the senior management team. This means either the CEO or one of his/her direct reports would fulfill this role since the process will align myriad functions with the overall business strategy and unite the different functions into one homogenous process.

As with any project, there must be a plan, and it must be communicated effectively so everyone is aligned and aware of their role and the team's expectations.

Key stakeholders include:

- Senior executives
- Sales
- Finance
- Supply chain operations
- Planning
- Product management
- Procurement
- IT

To be successful, the plan must also have well-defined and achievable milestones for the project team. Discipline is a critical factor in the success of an IBP project and creating a solid foundation will ensure a successful implementation process.

Processes

The key to implementing a fully integrated and optimized planning process is to follow a structured approach in line with the integrated business planning framework.

A successful IBP implementation process relies on the following steps:

- Define where you are now
- Define where you need to be
- Leverage keys to success
- Kaizen (constant improvement)

Define where you are now

Once the strategy is confirmed, the team can define a process that supports the execution of that strategy. Before implementing an IBP process, the critical aspects of the company's strategy and infrastructure needs to be understood, including:

- The business and supply chain strategy
- The strengths and weaknesses of the current planning process

Understand the business and supply chain strategy

Effective planning starts with a clear definition of the company's strategy and competitive value proposition. This includes a thorough understanding of target markets, customers, and end users; and how the company competes on this stage.

Understand the current planning process

It is necessary to complete a full analysis of the current planning process, including a review of the people, process, and systems currently supporting the business. This helps to generate a constructive critique of where the current planning processes are effectively supporting the business, and where they need to improve. The result is a vision for the future state of the integrated planning process.

Define where you need to be

This section describes where the business needs to be from an IBP perspective. Accountability must be clearly defined and understood. Processes must be mapped out and well-defined KPIs must be established to ensure that the business is effectively measuring strategic execution.

The idea of implementing an IBP process is to provide a framework for the management team to ensure business focus, alignment, and synchronization across all functions of the business. This requires that planning horizons be defined according to the unique requirements of the business.

Typically, planning horizons reflect lead times associated with short-term, mid-term, and long-term planning decisions.

Systems

IBP is not simple—it requires both the right people, and the right supporting software infrastructure. Excel spreadsheets, and even most business intelligence (BI) solutions, are not designed for this purpose and do not have the power to support the complexity required in a straightforward and scalable way.

The right technology becomes the enabler for the entire IBP process. The right solution should be built on supply chain modeling and optimization. It will enable overall profit-driven decision making through “what-if” scenarios. At a tactical level, it will give the best inventory management answers considering a complex range of factors such as expiry dates, lead times, storage capacities, and resource and asset utilization. It will take a holistic view of the entire supply chain network and deliver the best plan that considers all business factors.

According to Rob Kugel, SVP and Research Director at Ventana Research, “Increasingly, executives are recognizing the importance of understanding the financial impact of their supply and demand planning. It’s easy to understand the concept of—on the one hand—the cost of having too much inventory versus—on the other—the cost to customer satisfaction of having too little to fulfill orders on time.” He added, “putting the concept into practice isn’t easy. In most businesses, these calculations aren’t static: They need updating on a monthly, weekly or sometimes even daily basis to respond to ever-changing market conditions. Organizations need real software, not spreadsheets, to find their best option that matches supply and demand in the context of their financial objectives and constraints.”

Metrics

Effective IBP systems are dependent upon accurate and actionable data. Data integrity is essential and accurate data is a key enabler in the process needed to apply precepts of science to data management.

Establishing data governance model over the IBP process ensures consistency and data integrity, and a focus on continuous process improvement.

In addition, key performance indicators (KPIs) are vital to accurately measure the effectiveness of strategic execution, including:

- Forecast accuracy
- Fill rate
- Obsolete stock
- Inventory turnover rate
- Overtime
- Procure cost to sales
- Utilization rate

The benefits of integrated business planning

Many companies are still running S&OP processes in Excel spreadsheets in fragmented siloes. This is simply no longer effective. The low hanging fruit has been picked, and in order to improve processes and stay competitive, companies must innovate their planning processes.

IBP has delivered significant benefits to practicing businesses. According to a recent study [conducted by Aberdeen Research](#), companies with a well-structured IBP process achieved the following benefits over a two-year period post IBP implementation:

- 17% improvement in profitability
- 10% increase in gross margin
- 7.5% increase in return on net assets (RONA)

The ability to analyze and predict the business-wide implications of changing demand and lead-time, and the ability to make the right decisions at the right times are critical to the success of any well-run, profitable business.



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