WHITE PAPER

Creating impact and value with integrated business planning

Practical applications for automotive suppliers

Anaplan

Businesses run on plans but cannot run effectively on concurrent, uncoordinated planning efforts. While each function — supply, demand, finance, sales, and operations — makes its own plans, siloed planning using spreadsheets or BI tools is error prone, backward-looking, and disconnected, all yielding slow decisions. These can become major issues in supply chains, where disruptions can alter one or more plans, and a timely response with probability assessment is business critical.

Why traditional planning fails to unlock value for automotive suppliers

The automotive sector faces unique challenges that make conventional planning approaches less effective. Without an integrated approach to planning, these challenges can jeopardize the organization's ability to reach its goals. They include:

Squandered growth: Lack of accuracy in demand planning makes it impossible to ensure sufficient inventory is available. This leads to lower on-time-in-full (OTIF) levels, higher delivery penalties, lost sales, and reduced aftermarket availability.

Waste and supply chain costs: Inaccurate demand forecasts and inefficient route planning can raise freight and warehousing costs, which has a direct implication for the bottom line. Suboptimal supply chain planning could mean opportunities to optimize supply chain costs are left on the table.

Suboptimal working capital: Optimal allocation of inventory frees up working capital, which can then be used to drive ROI in other areas. However, traditional planning practices often result in poor inventory management, increasing the risk of excess and obsolescence.

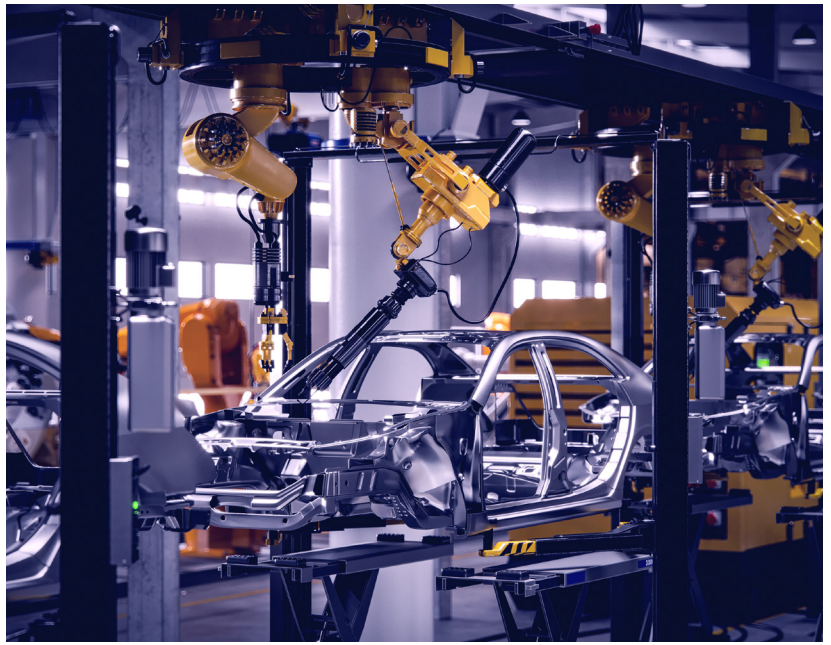
Automotive companies need to adopt more flexible and adaptive planning methodologies that account for uncertainty, encourage collaboration, and allow for rapid adjustments in response to changing conditions.

Connected systems, data, and planning

With supply chain disruptions making headlines, no business can really afford to operate with siloed planning processes and disconnected plans. Integrated business planning (IBP) directly addresses this problem, connecting systems, data, and planning across business functions with a unified experience, common evidence, and coordination that make better, faster decisions possible. The primary objective of IBP is to align the planning process across all stakeholder functions prior to execution, keep them aligned over time, and measure their performance — all with shared data, common decision frameworks, and consistent user experience.

The time-consuming process of data capture and consolidation from across the organization, and the opportunity to use it to inform insights and decision-making, isn't trivial in the automotive industry. The sector's inherent complexity requires close collaboration within and across business units, and often between companies, for instance suppliers and customers.

This integration of business plans gives organizations the essential agility they need to deliver the higher revenue, profit, and speed that has often eluded them.
All businesses create plans, and most start with an annual operating plan. The operating plan outlines activities and targets the organization should execute to meet the objectives set out in the company's strategic plan. These plans detail financial, human resource, and supply chain goals. Oftentimes the leaders of these organizations will create independent plans for financial goals versus workforce or supply chain goals. If these plans are executed independently, it can quickly become challenging and time-consuming to reconcile performance throughout the year. Much of the planning process becomes devoted to reconciling conflicting data, correcting plan discrepancies, and attempting to deliver a consensus plan fashioned from guesswork.

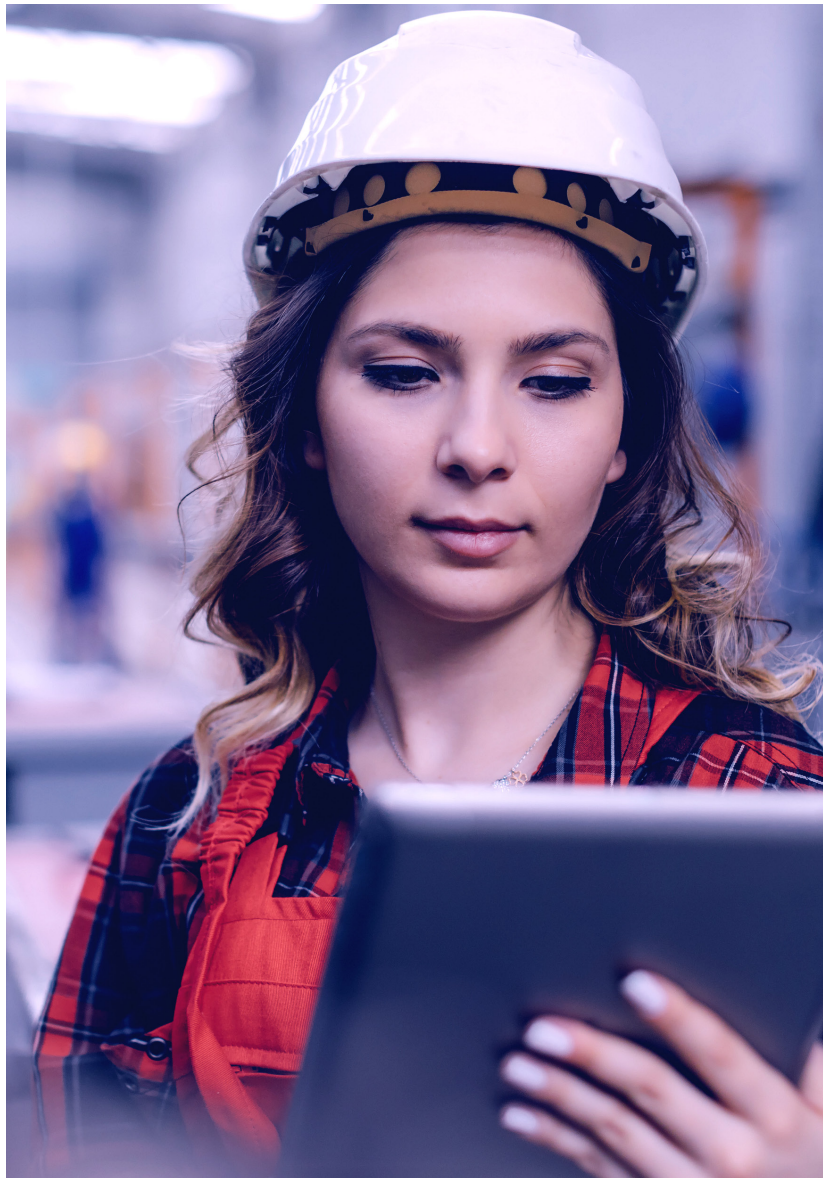


Connecting plans to operations

Integration requires plans to be propagated to each business unit and its operating units through coordinated systems and approval processes. A single business unit within a component manufacturer could have receiving, production, distribution, and fulfillment operations. Although interconnected, they have their own strategic priorities and unit-specific plans. Because of this, it is even more critical to performance that these plans and the associated changes are communicated and adopted in a timely manner.

The reverse is also true once plans are put into execution. Changes in execution (relevant examples are abundant in today's world, with shipping port backups and commodity price increases) must propagate back to planners at the specific level they are taking place, then move through planning hierarchies for continuous improvement of plans.

Considering how many stakeholders are involved in IBP, there are lots of moving parts that can be difficult to coordinate. However, there are best practice approaches for implementation to address this complexity, where the return on invested time and process discipline that comes with IBP can be substantially transformative. At a minimum, IBP mitigates the impact of supply chain disruptions with high visibility, better decisions, and coordinated effort.



The role of IBP in the auto components sector

Automotive suppliers face a future in which nearly all revenue growth will come from emerging technologies. The share of the profit pool from software, electric powertrains, and electric vehicle (EV)-related components is growing exponentially compared to that derived from legacy internal combustion engine (ICE)-related parts. However, EVs are currently not as profitable as ICE cars. This requires suppliers to balance an evolution of their product portfolio with ensuring profitability today.

Against this backdrop, suppliers are grappling with a variety of additional pressures including supply chain disruptions, compressed margins from inflation, regulatory changes, and labor shortages.

An integrated approach enables automotive suppliers to invest in the right product mix, capabilities, and customers to capture tomorrow's opportunities without compromising today's.

By adding deeper visibility into key business planning and operations, IBP aligns decision and action across its integrated business functions. Visibility yields business agility, enabling the better decision-making needed to effectively respond to changes in business conditions.

For the chief supply chain officer (CSCO), IBP delivers unprecedented visibility across interdependent business functions, their planning, and their impact on supply chain plans and operations. Greater visibility and alignment across planning functions in turn yields more accurate forecasting, predictability, and cross-team collaboration — all resulting in higher operational agility, allowing the business to make fact-based decisions faster, adapt in near real time, and execute more quickly in changing conditions.

IBP: Speed, accuracy, and predictability

IBP's benefits are visible throughout the organization in the form of speed, accuracy, and predictability. In fact, by aligning and integrating financial and operational plans, organizations experience:

- More accurate and faster budgeting and forecasting
- Accountability and visibility for regulatory and auditing purposes
- Improved insight into revenue operations
- Increased predictability and reduced unknown risk
- Agility to make critical business decisions faster

While some benefits are realized immediately, others accrue over time as the IBP implementation matures. This can take the initial shock out of adoption since IBP can be rolled out incrementally based on the organization's readiness and comfort level. The CSCO may already exploit the benefits of IBP if a well-run sales and operations planning (S&OP) process is being executed. S&OP is designed to balance demand plans with supply plans to reach a consensus plan for each business unit's execution. The required coordinated systems and collaboration and approval processes will be active.

LEVEL 1-2

Traditional S&OP

- Operational plan is forced to match the finance budget
- Operation plan can be disconnected from the financial budget

LEVEL 3

Beginner IBP

- Bottom-up operational plan is reconciled with financial budget to identify gaps
- Decisions and actions are taken to bridge identified gaps

LEVEL 4-5

Advanced IBP

- The focus shifts from revenue to profit and opportunity
- Operational and financial plan reconciliation happens at multiple profit and loss (P&L) levels
- IBP directly impacts and influences annual budget planning

The coordination of planning extends beyond the CSCO to include other stakeholders in the executive suite, from finance to commercial and beyond. What benefits the CSCO also makes the chief financial officer's (CFO) job, for example, easier too.

Beyond the CFO and CSCO, chief human resource officers (CHROs) will certainly appreciate any solution that brings foresight and stability to their workforce planning processes.

As the implementation matures, more wins for more stakeholders materialize. Ultimately, few individuals desire to play the role of drill sergeant. Most team members want to be part of a collaborative, successful enterprise that IBP helps create. Key success factors to executing IBP are sophisticated technology support for collaboration, data management and decision support, along with process discipline.

How IBP unlocks value for automotive suppliers

By implementing a robust IBP process, automotive suppliers can enhance their ability to forecast demand accurately, align resources efficiently, and make informed decisions that promote growth.

Higher growth: IBP has a positive impact on revenue generation through improving understanding within demand planning, as well as the ability to model P&L impact into key pricing decisions.

Resilient and efficient supply chain: IBP improves the accuracy of demand forecasts and drives a cost-effective supply chain, which in turn reduces freight, warehousing, and inventory holding costs.

Optimized working capital: IBP helps to reduce the amount of inventory in the system, contributing to a more efficient use of working capital by ensuring resources are deployed effectively. An improved view of demand boosts suppliers' ability to have the right amount of product and materials available at the right time.

So now that you know the potential benefits of IBP, where should you begin?

Integrated business planning for automotive suppliers

Anaplan solutions for automotive industry

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