ONE EIGHTY

A new perspective for your enterprise performance

May 2013

Optimized Planning

Upcoming Events

- CAM-I Second Quarter Meeting June 10-12 Boston
- Beyond Budgeting Round Table 12th annual conference June 9-11 Denver

People in the News

- Steve Player, Jeff Kerrenbauer, Glenn Sabin, and Alan Dyvig for all your efforts in making this Proof of Concept possible.

Link

- Optimization and Simulation Technology

Optimized planning requires relaxing the assumption of a fixed sales forecast to solve for the optimum level of sales and marketing spend that results in the highest profit and ROI.

There are two different ways to achieve this. One way is termed descriptive (also referred to as scenario analysis or enumeration). It answers the question: "What will happen if we do X?"

The other is termed prescriptive or normative and answers the question: "What is the best X?" Normative techniques are much more mathematically sophisticated and are required when the number of possible scenarios is too numerous to calculate individually.

Optimizing for the best X looks at every single combination of sales, costs, capacity, and restraints to solve for the sales and marketing spend that result in the highest profit and ROI. In many ways this is as good as it gets for financial and operations planning.

Optimization techniques have been around for decades in a variety of applications including supply chain network design to optimize the number, location, and size of raw material suppliers, manufacturing facilities, production processes, and distribution centers.

But could it be done for optimizing finance, sales, and operations planning?

For the last several years, a small group of dedicated subject matter experts in F&O planning, sales and marketing, costing, and prescriptive techniques have been working together on a Proof of Concept (POC) model to demonstrate feasibility.

In selecting a company for the POC model we had several requirements, the first of which was having Activity-Based Costing system in place. By having ABC data available, 70-80% of the information and data requirements were already available. Other selection criteria included an international sales base and a sufficient number of customers, products, production processes and sales regions to fully test the POC.

The project plan was based on collecting all the data and information necessary for optimization and included cost functions curves, response functions, capacity and other constraints.

The POC model, a prototype to test the feasibility of optimized planning, demonstrated profit improvements of 25-100% depending on the scenario.

The White Paper documenting the case study will be published late summer.

Optimize your planning capabilities by leveraging ABC data and information...
John A. Miller

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