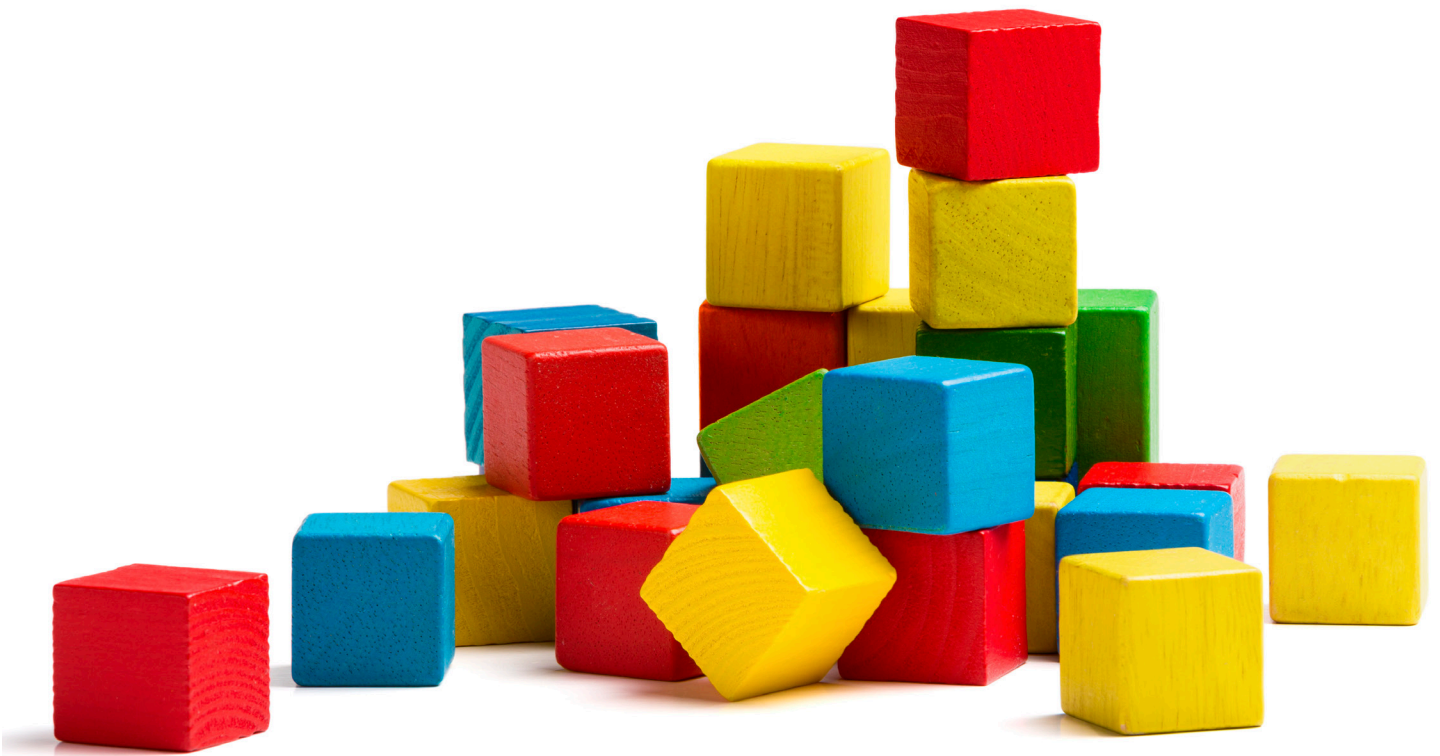


# Assumptions: The Key to Successful Demand Planning

*You cannot improve the accuracy of a demand plan without them*



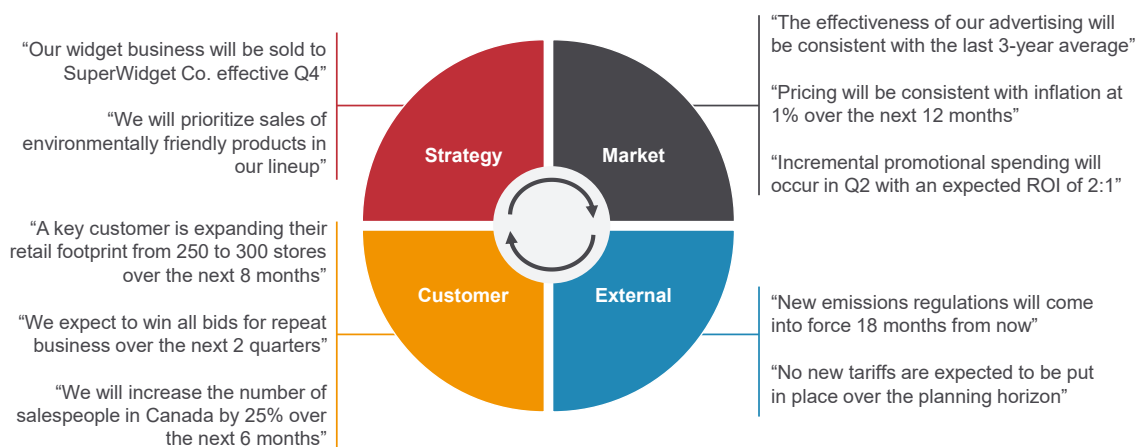
Imagine the **possibilities**,  
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# Introduction

Assumptions are the fabric of a Demand Plan. They describe the very things that make it a plan – the Sales and Marketing activities that will be undertaken to generate demand. Beyond that, they describe the anticipated market conditions, competitive activities, customer behaviors, and strategic activities that may go above and beyond Sales and Marketing activities, such as mergers and acquisitions or divestitures.

The keyword here is *describe*. Good assumptions are more words than numbers.

## Assumptions describe the activities and expectations embedded in the Demand Plan



In a best practice process of achieving consensus to a plan, the best story usually wins. It is a truth that frustrates many demand planners who come armed with analytics that show how accurate they would be if only somebody would listen to them. Business leaders trust that which they can understand and explain in their own words, and a good story is both understandable and explainable.

Putting that into perspective, the easy part of Demand Planning is calculating the number. The hard part is:

1. Convincing others that the number is, in fact, the right number, and then
2. Influencing them to change behaviors and/or do something with the information behind the numbers

Assumptions are the key to both of those challenges. Assumptions drive clear communications and fact-based discussions. By debating the assumptions rather than the numbers, accountability becomes a key element of the process. The planning and leadership team also identify problems and gaps sooner and ultimately take action to close them much sooner.

## Let's illustrate the vital role of assumptions with an example:

Sales and Marketing leaders are working to reach consensus on demand for a product. The Sales executive believes demand will be 100 units, and the Marketing executive believes it will be 150. An independent statistical forecast suggests 95.

Without any additional information, what should they do?

One option is to simply average out the different alternatives and arrive at 115 units.

Another option might be to weigh the inputs based on the time horizon. Let's assume, in this case, that we are talking about next month. Sales is typically more involved in sensing and influencing near-term demand. The result could, therefore, be 110 (weighing some of the input from Marketing, but not much).

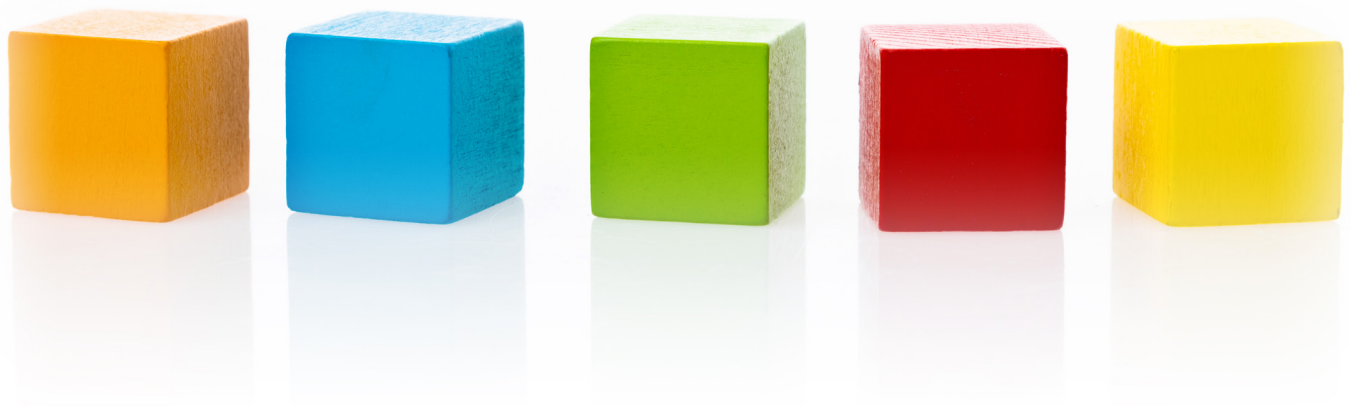
Some would argue that the best course of action is to simply take the statistical forecast of 95 because it has no bias, and has been developed to mathematically deliver the lowest error.

By digging into the underlying assumptions, however, we can come to a much better outcome.

- Sales is assuming a baseline run rate of 85 units, plus an additional 15-unit uplift driven by promotional pricing.
- Marketing assumes a baseline of 100 units, plus a 50-unit uplift driven by a new ad campaign.
- The statistical forecast is only considering the baseline run rate at 95 units.

We could start with the assumption of a baseline run rate being 95 units, as a properly developed statistical forecast is likely the best method of reaching that number. (The fact that Sales and Marketing both have different baseline assumptions is a different problem altogether.)

We can then have a discussion to decide if it makes sense to run a new ad campaign and implement promotional pricing at the same time. If so, are the two activities incremental to each other?



Perhaps we have some history that would show what happens when we combine ad campaigns and promotional pricing – they may even amplify each other! In either case, we are opening the discussion to make good cross-functional decisions around driving demand.

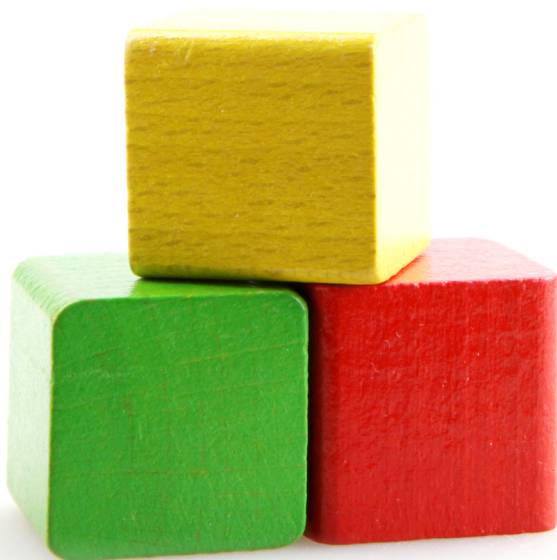
The best answer, in this case, may be 160 with a baseline of 95, plus 15 for promotional pricing, and plus 50 for the ad campaign. Without understanding the assumptions, it is unlikely that the result would have been any higher than 150 (and likely would be much lower).

Now, we also have clear accountability for Sales to implement the promotional pricing and Marketing to run the ad campaign. Despite the result being a different number than any of the going-in positions, we achieve ownership of the various components of the plan. If either of those activities fails to occur as planned, we will be able to explain the results and hold the teams accountable to that gap in execution.

In the above example, we illustrate a situation where discussing underlying planning assumptions helps to clarify the plan and achieve a more accurate projection of demand. There are other cases where understanding the assumptions will help even if we already have an accurate projection:

Take, for example, a manufacturer of pretzels. A certain product line had a very predictable demand pattern, and the demand planning team was able to create an accurate forecast. The pattern was seasonal, and there were periods of ups and downs that were consistent year over year. The statistical forecasting models considered level, trend, and seasonality, resulting in a fairly accurate forecast.

At one point a key raw material for the product became constrained. Through the Sales and Operations Planning process, the Demand and Supply teams recognized that supply availability would be lower than demand. The teams started working to resolve the gap in demand and supply.



It was straightforward exercise – the team trusted the demand plan, and therefore worked the supply side to try to maximize production output.

The team failed to appreciate, however, that quite a few of those seasonal high points in demand were driven by promotional activities that the Sales organization funded. By the time the team communicated the shortage to Sales, the promotional windows had already been locked-in and had to be honored. In the end, the company incurred additional costs expediting supply while at the same time discounting the sales.

In this example, had the underlying assumptions behind the demand plan been more obvious, other less costly options could have been considered. One option could have been to reduce the promotional spend. Or possibly the promotional spend could have been shifted to a different product or time where supply would be available. Consideration of these types of options is referred to as Demand Shaping, and it depends entirely on understanding the assumptions and levers of demand.

When discussions focus on assumptions, it is much easier to reach consensus on the demand plan. As we saw in the examples, a good plan combines alignment on the expected activities and events with agreement on the impact that those events will have on sales volume, revenue, and margin.

When the debate about the demand plan centers on a number, confusion and misunderstandings are common. It is not clear whether there is a disconnect on the activities, the quantification of the activities, or both. This leads either to frustration in the consensus process or worse – consensus to a number without consensus to the underlying activities.





## How to Manage Assumptions

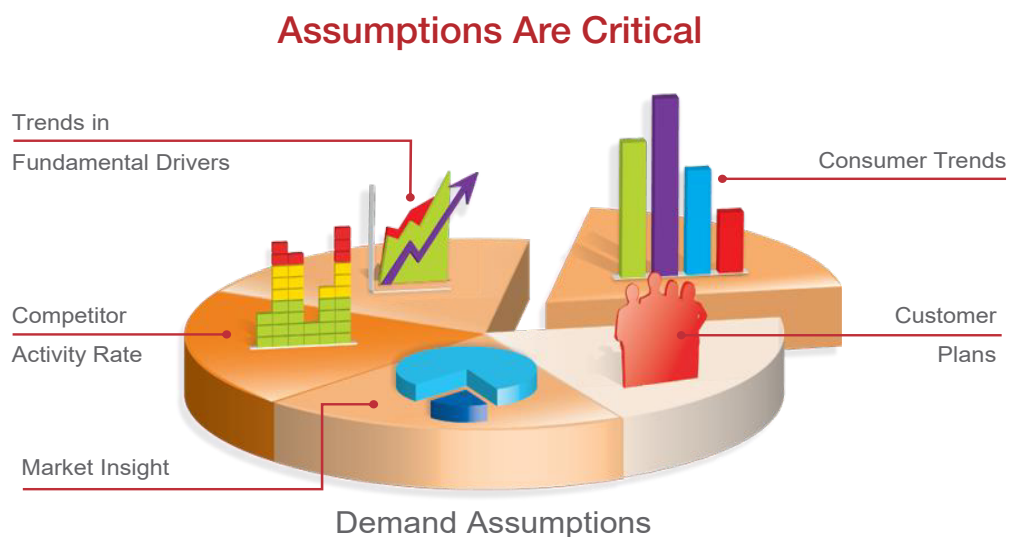
We saw in the previous examples that assumptions can take various forms, but they fundamentally describe an expectation of the future. This concept, on its own, is not challenging. Putting the concept of assumption management into practice can be difficult.

Why? Most demand planning tools are fundamentally anchored in numbers. They help with statistical models, aggregation, disaggregation, pivoting, translating between units of measure, and many other numbers-driven activities. There is often no good place for the words to live, and qualitative information about the demand plan perishes as a result.

When assessing how assumptions should be managed relative to demand planning tools, be sure to consider the fact that assumptions are typically tied to an aggregate plan. While there are cases for connecting specific assumptions to certain SKU level details in the plan, more often assumptions apply to a product family, brand, customer, or channel. If your planning tool largely operates at a detail level, it is likely not well suited for managing assumptions.

Tools can also easily identify logic errors and can calculate forecast accuracy as a metric, but they cannot manage or evaluate the quality of assumptions. Assumption quality can only be improved by developing the capability of planners and having a strong process in place.

We often recommend that a separate Assumptions Journal be maintained to keep track of planning assumptions. It may take the form of a simple table in a PowerPoint document, or it may be a more sophisticated tool.

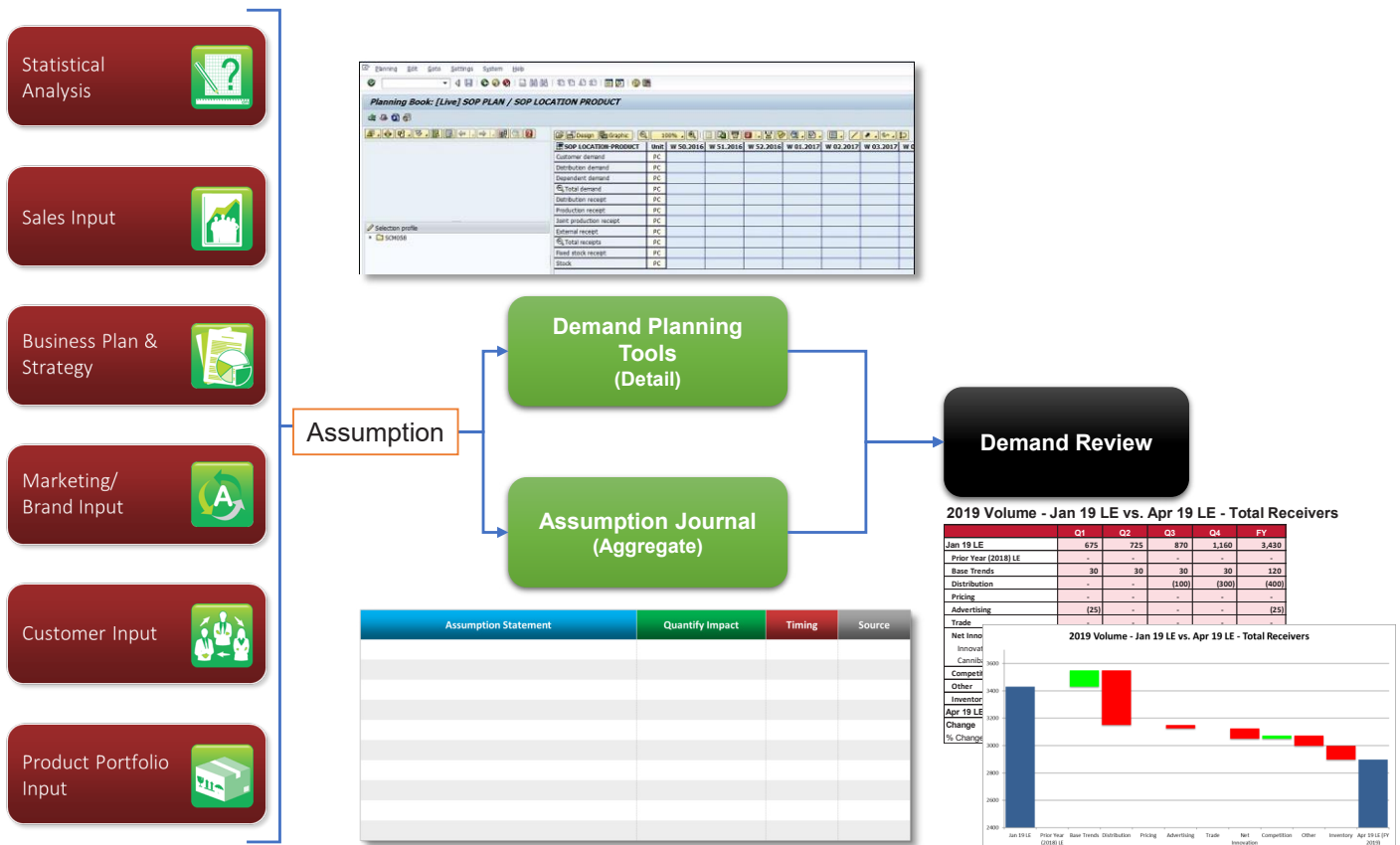


**“Use assumptions to shape the future rather than as a basis for excuses about non-performance.”**

The journal very often already exists – as a bridge document that a Demand Planner, Brand Manager, or Finance Manager maintains and uses to explain what changed between forecast cycles, or between the demand plan and the annual budget. Some may call these “Risks and Opportunities” as they explain a variance between the latest plan and a budget (although that is not what we would call a best practice definition).

A robust demand planning process defines certain key assumption management activities:

- How and when assumptions are captured, documented, and by whom
- What mechanism ensures that the assumptions documents are kept in sync with the demand planning tools
- Quality process for evaluating and challenging poor quality or debatable assumptions
- Method for reflecting assumptions in the Consensus Demand Review



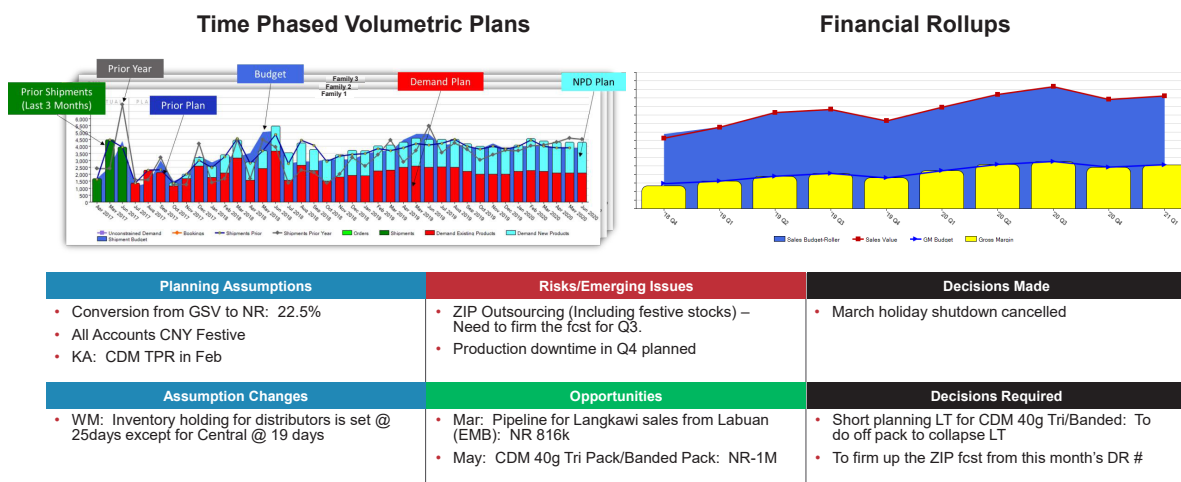
## Assumptions in the Consensus Demand Review

Assumptions should not live only on a notepad, in a planner’s head, or buried in a planning tool. They need to underpin the conversations in the Consensus Demand Review.

The challenge is often with racking up and summarizing the assumptions. Unlike numbers, tools cannot easily combine or sum together a set of words. The classic saying (attributed to Mark Twain based on an earlier quote from Blaise Pascal) “If I had more time, I would have written you a shorter letter” certainly applies in this case. A certain amount of effort, capability, and business understanding is required to effectively summarize the most critical assumptions, while grouping the rest in an “all other” bucket.

Here are a few examples of how Assumptions may be presented for discussion in the Demand Review.

### 6-box Summary



A 6-box family summary is comprised of a visual representation of the demand plan at the top (often a time-phased volumetric view), and areas below where assumptions, risks, opportunities, and decisions are documented.

The assumptions documented here are usually not exhaustive. In my experience, the most controversial assumptions are best documented here. I like to ask myself: What assumptions would the audience in the Demand Review either most likely ask about or have a strong opinion on, and then outline those. A good consensus discussion focuses not on where everybody agrees, but where there is disagreement or contention.



## Assumption Table

Assumption	Degree of Control	Now	3 Months	6 Months	9 Months	12 Months	15 Months	18 Months	24 Months
<b>Market Assumptions</b>									
Population of users (by sector)	Some	20000	22000	22000	22000	22000	22000	23000	24000
Growth of Economy in sector	None	.5%	.5%	.5%	.25%	0%	0%	0%	0%
Rate of new product introduction	Control	4 year	2	1	1	0	0	2	2
Number of competitors	Some	20	18	16	14	10	8	8	8
Competitor activity	None	Price war	Price war	Price war	New products	Promotions	Promotions	Promotions	Promotions
Market price movement	Some	-5%PA	0	-10%		-10%		-5%	
Promotional Activity	Some	High	High	High	Med	Med	Med	Med	Low
Market share	Full	25%	25%	25%	26%	30%	30%	35%	35%
<b>Sales Assumptions</b>									
Customer population - Size S	None	200	200	180	150	120	120	100	100
Customer population - Size L	Some	20	25	30	35	40	40	40	40
Share of customers	Full	40%	50%	50%	50%	50%	50%	50%	50%
Avg # of products per customer	Full	5	5	5.5	6	6	6.5	7	7
Competitor activity	None								
Etc...									
<b>Volume Resulting</b>		<b>1000</b>	<b>1000</b>	<b>1050</b>	<b>1050</b>	<b>1100</b>	<b>1100</b>	<b>1200</b>	<b>1200</b>

An assumption table outlines key assumptions over time. A table, like the example above, works well when there are a set of well-defined *assumptions that can be quantified*. In a Demand Review, it would be helpful to highlight recently changed or proposed changes to assumptions in the table with an annotation.

## Change Journal / Bridge

	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY
<b>April Demand Review</b>	75,772	77,850	153,622	77,153	77,266	78,363	78,800	311,582
New promotion with Customer ABC in February 2021			-	7,000				7,000
Cancellation of ad campaign tied to budget reduction	(1,000)	(1,000)	(2,000)	(1,000)	(1,000)			(2,000)
New product launch delayed by 2 weeks to incorporate additional feature	(7,000)		(7,000)					-
Additional volume expected from new product as a result of additional feature		18,000	18,000	6,000	7,000	6,500	7,000	26,500
Revised base trend given macroeconomic outlook	(2,500)	(2,500)	(5,000)	(2,500)	(2,500)	(2,500)	(2,500)	(10,000)
<b>May Demand Review</b>	65,272	92,350	157,622	86,653	80,766	82,363	83,300	333,082

A change journal or bridge is an approach to explaining changes to a plan from one version or cycle to another. A bridge typically works well in conjunction with other approaches to reflecting the static, or unchanged, assumptions in the plan.

With this approach, a participant does not need to review months of change history to assess the current state of assumptions. This approach can be critical to driving the consensus discussion. Applying the principle that *we have a plan until we decide to change it* means that in a Demand Review, only the proposed changes to the demand plan need to be discussed and agreed to. Some call this practice managing by exception.

# Getting Started

**Developing structure and rigor around assumptions can be a daunting task. Having helped many companies in different industries improve their assumption management approach, there are a few common insights to share.**

Stakeholders often embrace the structure and process, even though on the surface it may appear to be more work. Answering what should be simple questions from leadership about what has changed between the annual budget and the current demand plan often requires a lot of heavy lifting. Leaders aren't looking for the number (they can calculate that fairly easily); they want the story.

Assumption management is the means of telling the story. Structuring the work with some simple tools, unencumbered by the detailed planning system, can drive huge productivity gains for demand planners.

Taking the first step in structuring the assumptions work doesn't require more than creating a slide for the Demand Review and writing down a few key assumptions. Doing so can dramatically improve the discussion. Note that a better discussion often involves *more* debate and can feel more difficult. Healthy tension, and a focus on where there are differing viewpoints, result in a better plan.

The key point here is that the documentation of assumptions does not have to be perfect. If the participants disagree with what is written down, then you will gain insight into their assumptions. You will be able to capture those insights moving forward and apply them to the volume and timing expressed in the demand plan. The result: A more credible and accurate demand plan with less bias.

Developing a capable assumption management process is a journey that requires the development of people, process, and tools, with a strong emphasis on people. People find comfort in numbers and spreadsheets.

Taking the steps to document and evaluate assumptions requires courage. It involves taking a risk to write down assumptions that may be unpopular, or acknowledge the fact that assumptions are missing and may not have existed in the first place.



Documenting and communicating assumptions may also trigger discussion and debate that people would prefer to avoid. It may require people to change their behaviors, such as not shooting the messenger and fostering open, honest communications.

Dealing with these issues, however, is one of the main reasons why assumptions are so powerful and critical to driving better plans. People become comfortable and capable of challenging and facilitating constructive debate around business assumptions. As they do so, they earn the respect of leadership.

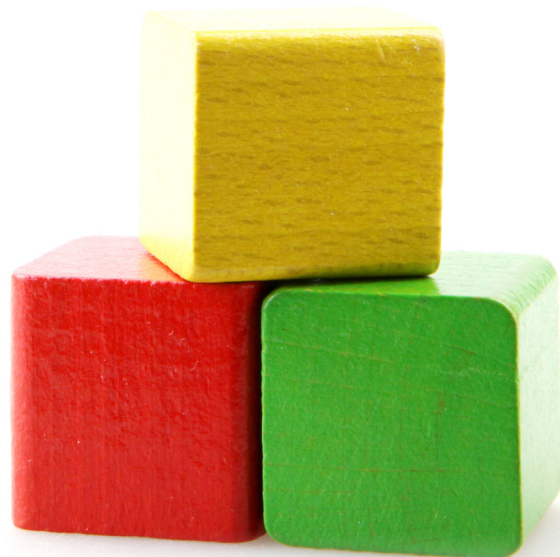
This was my own experience. Assumptions management helped in developing my own career and the development of others, which is why I am so passionate about the topic.

If you are ready to take the first steps in assumptions management, we can help. We have helped companies develop simple tools, effective Demand Review materials, and have coached their teams and leaders to embrace an assumption driven process. We have tailored approaches for companies of all sizes and levels of maturity, and would be happy to help your company as well.

## Author



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