

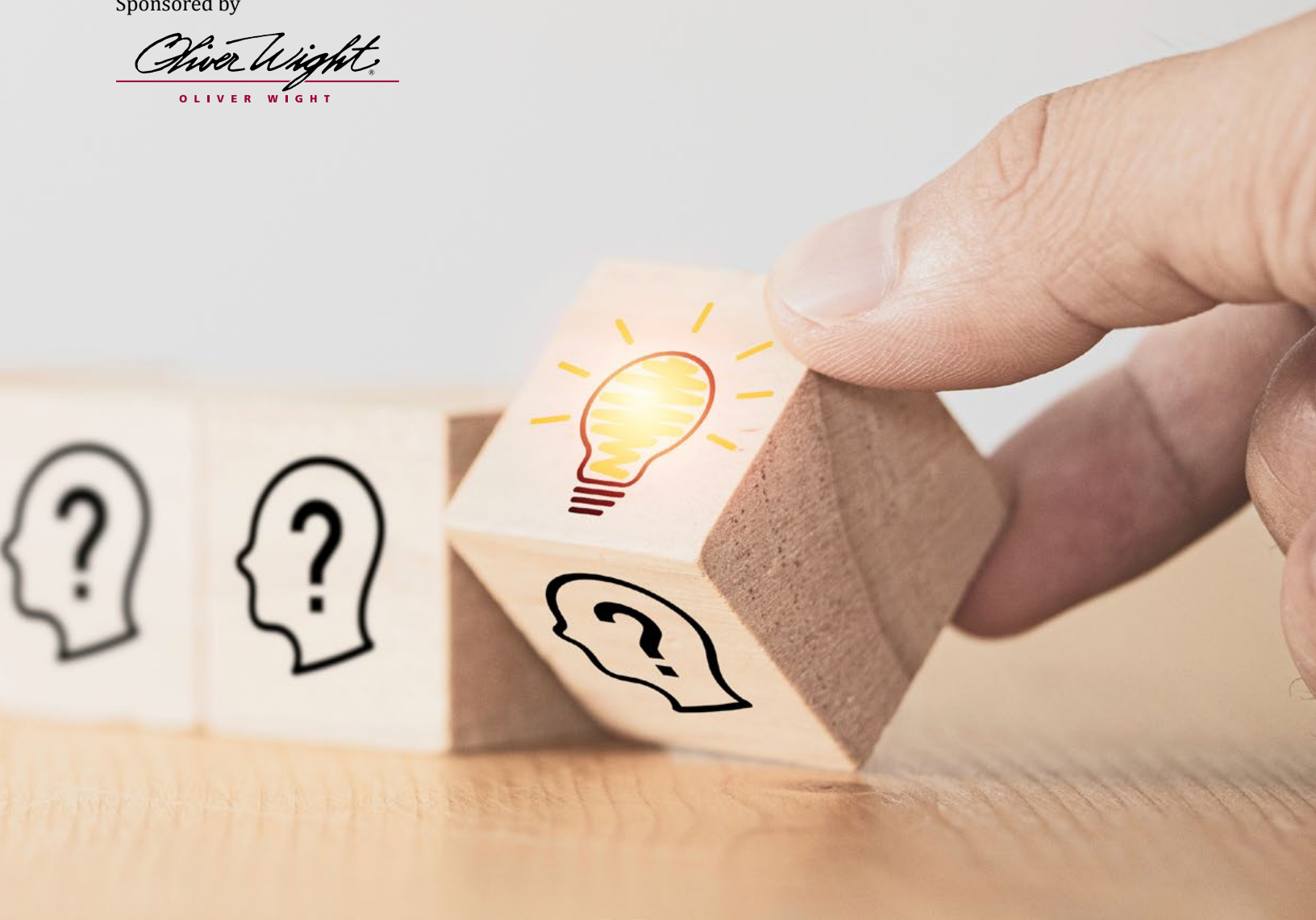
# Assumptions: Good Questions Lead to Good Assumptions

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# Assumptions: Good Questions Lead to Good Assumptions

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As a company responds to and predicts consumer trends, it will make a series of assumptions about those trends that inform its demand planning. These assumptions can make or break a company's business strategy, so it's important that they're well vetted. An incorrect assumption that, for example, demand will remain high indefinitely can leave a company with more product than it can handle when that demand eventually subsides. A correct assumption, on the other hand, can keep the company on the pulse of changing buying patterns so it can adjust its strategy as needed. But how can you tell if an assumption is sound or worth challenging? Greg Spira, a business advisor with Oliver Wight, a supply chain management consultancy, believes that questions are key to strong assumptions and successful demand planning. When a company fails to ask enough questions, or the right questions, it can lead itself into a dangerous trap.

## How Poor Assumptions Can Harm Your Business

Spira sees today's supply chain as one big roller coaster. "It's a metaphor for what a lot of us have been through over the last couple of years. We've been through the pandemic and through disruptions in supply. We've had a lot of ups and downs, some excitement, some thrills, some fears, and just when we think we might be making forward progress, we are right back where we started." While some companies have been able to ride the roller coaster, others have struggled to manage the constant fluctuations.

"A lot of organizations, I found, were in this situation where they were facing significant increases in demand, to the point where they threw their hands up and said, you know what? There's no sense in keeping track of unconstrained demand, we just can't keep up," says Spira. One company, he says, focused so intently on how much supply they could get, that they were left unprepared when demand dipped and the supply kept coming.

Because the company saw demand increasing, they made the quick assumption that demand would

remain high indefinitely. "They set their factories to produce as much as possible, but like a roller coaster, what goes up must come down," he says. "They weren't paying attention to the assumptions that would have to be true for the elevated levels of demand to sustain themselves over time. They weren't coming together and asking the questions and pressure testing those assumptions."

When those assumptions proved to be untrue and demand took a nosedive, the company found itself in crisis. They backed up their warehouse with items customers no longer wanted, leaving itself no room to accommodate the new orders that customers did now want.

Moreover, they failed to build in contingency plans for this scenario, leaving them with few available solutions. "It's really important as we go through these uncertain times to be having the conversations about what assumptions are behind our demand plans," says Spira.

## Assumptions and Demand Planning

Before we can understand how assumptions impact demand planning, we need to understand where

demand itself comes from. Charity Lopez, an expert in demand and brand management and an Oliver Wight business advisor, says, "A very important thing to understand is that demand doesn't just happen to us. If a new product comes up for sale, it doesn't automatically get sales. There are activities that have to occur that are driven by specific parts of an organization."

The marketing and sales teams, for one, are major drivers of demand. If the company predicts that the marketing for a particular product will significantly drive up demand, it can adjust its demand planning accordingly and prepare for an increase in sales. "Because these activities are driving the actual sales of the products, we need to make sure that the demand plan reflects these sales and marketing activities, and that they're really a result of these efforts."

On the flip side, once that marketing campaign is over, the company might assume that sales will dip. Of course, product marketing is far from the only thing that impacts demand, so this alone won't cut it as a business strategy. Lopez describes four different "buckets," or categories, of

assumptions that companies should consider in their demand planning.

#### **Four Buckets of Assumptions**

In a company's internal business, it can look at its strategy, the customer and the market as three core elements that will help determine demand. Demand planners can then build assumptions based off what they believe to be true in each of these categories.

While these factors are somewhat predictable, some are not. The unpredictable factors make up the fourth bucket: external events. "There are also assumptions and activities that are outside of our control, but they still need to be discussed and embedded into the demand plan," says Lopez. A hurricane for example, is impossible to predict months or years ahead of time. But once that external element comes into play, each department needs to come together to collaborate on ways to build that event into the existing plan.

#### **How the Socratic Method Can Improve Your Demand Planning**

As team members bring these four categories together to build assumptions, Lopez says, it's important to ask the right questions to appropriately vet them. In this sense, Spira believes supply chain planners have a lot to learn from the Socratic Method.

"The simplest way to test whether or not our assumptions are as robust as they could be or weed out lower quality assumptions is to ask questions. Some people refer to this as the Socratic Method," he says.

The Socratic Method is a type of dialogue between people that uses questions to flesh out ideas and challenge presuppositions. "It's a method of stimulating critical thinking," says Spira. "It's very applicable to demand planning."

It's important, he adds, that if you know less about a topic than another person in the room, you ask your questions constructively. "We're asking that question to better understand, not to challenge the assumption. I want to lead the person to the realization that their analysis could be better or more robust, not call it out. I'm escalating the issue or the assumption, not the person."

In practice, this can look like an extended series of follow-up questions when weighing the viability of a strategy. For instance, if the company wants to increase the demand plan next month by a hundred million units, you might start by asking, Why? Perhaps it's because the company is running a promotion. You might then ask, Have we run a promotion with that customer in the past? If not, have we run a similar promotion with other customers in the past? "You start to really peel back the onion," says Spira.

This line of questioning, he adds, should allow the speaker to come to the conclusion on their own about whether the plan is solid or needs to be revisited.

If they're unable to come to that conclusion on their own, it can sometimes be appropriate to share your reservations outright. "I always push to ensure that demand planners, marketers or anyone coordinating some planning process feel empowered to push back when the answers aren't coming. If you're asking good questions and not getting answers, that's where you need to put your hand up and say, you know what? I don't know that I can put this into the plan because without an assumption, there's no way to legitimize or to validate or explain what we need to do in order for that volume to materialize."

#### **Reflecting Assumptions in the Demand Review**

Once the right questions have been asked and the assumptions have been made, you need a way to communicate them effectively.

"So you go through this exercise of asking the good questions, you go through the Socratic approach, don't leave it there," says Spira. "Make sure that the answers to those questions and the assumptions you've gathered are documented and visible in your demand review process."

This information can be organized in tables, with the numbers clearly laid out, as well as with words, where the assumptions, risk factors and decisions are written out to help others in the company understand exactly how you came to conclusions you've arrived at.

"Make sure that those words are reflected in the demand review so people can see them and they can make sure that they agree with them. That all of the people who are consenting and approving this demand plan and then committing to it understand what those key assumptions are within the plan."

While vetting your assumptions may extend the demand planning process slightly, due diligence in this part of the process could save you time and money after a strategy has been implemented. Good questions lead to good assumptions, and good assumptions are good business.