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Chapter One: Give the Business One Plan

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CHAPTER 1

Give the Business One Plan

"One head and one plan for a group of activities having the same objective."
— Henri Fayol, General and Industrial Management *(1916), translated by Constance Storrs (1949)*

On February 20, at Riverton's first-quarter business review, three of my leaders put a number for the second quarter on the same screen, one after another. Dennis Sandoval, the vice president of sales, showed $46.0 million of net sales. Joan Hadley, the chief financial officer, showed $42.3 million, and Curt Lanning, the vice president of operations, showed $40.1 million. Riverton Industrial Products makes what moves inside a conveyor system — drives at Muncie, Indiana, and rollers and kits at Joplin, Missouri. It sold $151.4 million of them last year. I was in my second year as its CEO, and the three people I leaned on hardest were $5.9 million apart on the next ninety days. Which one was the second quarter?

None of them was lying. Each had planned with care and in good faith, in a different room, and we were already paying for the distance between those rooms. Corvane, a warehouse-automation integrator building distribution centers for retailers, had asked on January 14 for a quote on 650 drives and 18,000 rollers a month for ten months. Riverton's quote went out on February 2, nineteen days later, because we couldn't say whether Muncie could build it. Wade Cutler, Muncie's plant manager, had asked in late January for Saturday overtime at the gear cell, where Muncie cuts and hardens its gears. He joined the review on video from the plant, still waiting for an answer three weeks later. And Teresa Amato, who runs purchasing, had known since February 6 that Delmore Castings was running late with a new mold line. Delmore

casts the housing for the heavy-duty reducer. Sales would hear about it on February 25. That was another nineteen days.

Those delays had no owner, and all three had the same cause — it was up on the screen.

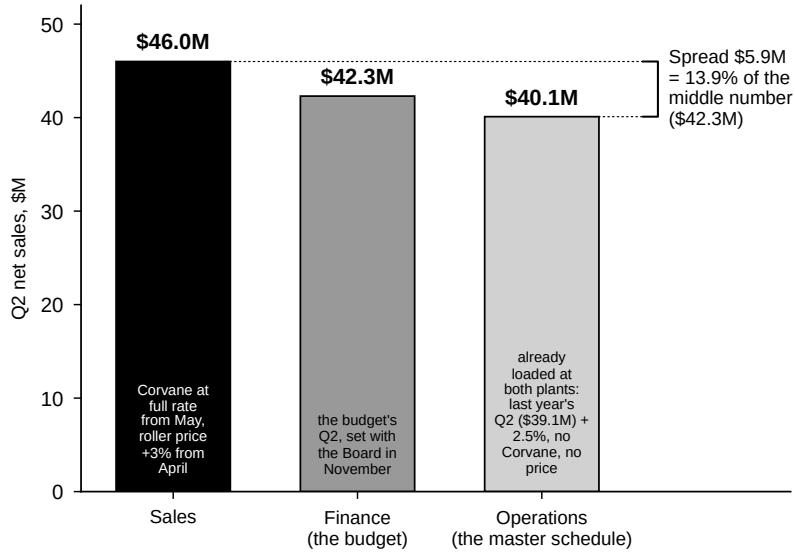
In my experience, a company that runs on more than one number is really running on none. Your sales team forecasts what it can sell, Finance holds what it promised the Board, the plants build to whatever schedule is already loaded and purchasing buys to its own best guess. Each of those plans makes sense in its own room. You find out they disagree when a customer is shorted or a quarter is missed. By then you've paid three ways — in decisions that wait, in inventory built for the wrong quarter and in customers who didn't get what they ordered. SIOP (sales, inventory and operations planning) replaces the separate plans with one. It's made every month, it looks eighteen months ahead, it counts in units and dollars down to the gross margin line, and your leadership team decides it together, in one room. You own it, you charter it and you chair its last meeting. If you skip it, the bills keep coming, and nobody's name is on them.

The Three-Number Test

How far apart are your leaders right now? You think you know, and so did I, until one screen showed me otherwise more than a year into the job.

I call it the three-number test. It's the business version of asking three people in one room for the time. It won't tell you whose watch is right, but it will tell you whether the three of you are going to catch the same train. Run it in three steps.

1. Ask your heads of sales, finance and operations for one number: net sales for next quarter. Ask them separately, so they don't hear each other's answers and drift toward them, and ask all three on the same day, so they're working from the same news. Take a number, not a range and not a deck, and write it down while they watch. A number someone gives you in a hallway tends to turn into a range by the afternoon.
2. Compute the spread: the highest answer minus the lowest, divided by the middle one.
3. Read it against two lines. Under five percent, you have one company and the ordinary arguments of one company. Over five percent, you're running more than one company. Over ten, the



Over 5%: more than one company. Over 10%: the plants are building to one of them.

Fig. 01-01: Three numbers for one quarter: Riverton's second quarter as Sales, Finance and Operations each put it on February 20 — $46.0 million, $42.3 million and $40.1 million, a spread of $5.9 million, or 13.9 percent of the middle number.

plants are building to one of them, and your first job is finding out which one.

I ask for net sales because it's the one number all three functions touch. Sales sells it, Operations ships it and Finance books it, so it belongs to all of them. I ask about next quarter because a quarter out is close enough that it's hard to hide behind the distance, and far enough that the plants can still do something about the answer. If you ask for anything vaguer, you'll get three answers you can't compare, and that tells you something too.

We ran the test at Riverton on February 20 without meaning to. Dennis's $46.0 million was the highest number and Curt's $40.1 million the lowest, a difference of $5.9 million. Divide $5.9 million by the middle number, Joan's $42.3 million, and the spread comes to 13.9 percent, well over ten. Figure 01-01 puts the three side by side.

Which company were our plants building? It turned out to be the smallest, and we hadn't chosen it. Curt's $40.1 million wasn't a forecast at all. It was the master schedule already loaded at Muncie and Joplin — last year's second quarter, $39.1 million, plus two and a half percent.

There was no Corvane in it and no price increase, so the gear cell's hours had been loaded against a quarter that neither Sales nor the budget expected.

Then make a second list. The spread tells you how far apart your leaders are, and you also need to know what that distance is costing you. Write down every decision in the company that's waiting on another function's number, and next to each one, how long it has waited. On February 20, Riverton's list would have had three lines. A quote had needed nineteen days to get out the door, an overtime request was three weeks old, and a supplier's problem had been known in purchasing for two weeks without reaching Sales. Count the cost in days before you count it in dollars, because time is what you lose first when your leaders disagree.

The test takes a day of your time, and it tells you whether you need the rest of this book. What if the spread comes back under five percent? Then run it again next quarter, and spend the weeks this book would have cost you on something that needs them more.

Let me add one caution. Don't read the spread as a verdict on anyone. It measures how far apart your people are, not which of them is right, and the number you end up building to may be none of the three.

Three Honest Numbers

Which of the three was wrong? None of them was, and that's the hard part.

Dennis's $46.0 million assumed that Corvane would buy at full rate from May and that a three percent price increase on rollers would take hold in April. Joan's $42.3 million was the second quarter of the budget we'd set with the Board in November. That made it a target, the number the company had promised, and a promise isn't the same thing as an expectation. Curt's $40.1 million was what the plants were already scheduled to build. Each was the right answer to a different question. Dennis answered what we could sell, Joan what we'd promised and Curt what we were building. What the company needed was the answer to a fourth question, one I hadn't put to any of them. What will we sell, what will we build to sell it and what will it be worth?

Everyone in that room also knew the history, but we hadn't written it down. When we finally did, the last four quarters (through the first quarter of this year) showed Sales' forecasts running 9, 7, 8 and 11 percent above the actual. Operations' ran 3, 2, 4 and 1 percent below

it. Finance's number hadn't drifted at all, because a budget is set once and stays where you put it.

Neither pattern is a character flaw, and you'll find both in your own company. A sales forecast is also a request for the plants' attention, and you don't get attention by asking for less. A plant that builds to every hopeful forecast ends up storing what didn't sell, and it's the plant manager who has to explain the warehouse. So each function learned to correct for the others in private, by an amount it kept to itself. Those corrections were plans too, and they didn't get reviewed. Three plans on the screen meant more than three in the building, and I couldn't have told you how many. That's where the nineteen days on Corvane's quote went. A request for 650 drives a month had to be tested against the gear cell, and there was no shared number to test it against. All we had was a sales forecast the plants had learned to discount and a schedule with no room in it.

Does your company know its own bias? Ask for the last four quarters of each function's forecast set beside the actual, on one page. If your team can't put that page together by the end of the day, you have your answer. You've also found the first job for the person who will run your process.

What SIOP Is

By now you've seen three honest numbers, an unwritten bias and a stack of decisions waiting on all of it.

What replaces them is a process older than any company I've run. SIOP is one plan for demand, supply and profit, made every month by the people who own its parts and decided by the leadership team in one room. Picture the map on the table in a command post. Every unit marks its position on that one map, and nobody keeps a private copy in a pocket.

The second half of that definition matters as much as the first. One number made by Finance alone is just a fourth plan, and one you make by yourself is a wish with your name on it. The number has to be made by the people who own its parts — Sales its volume and price, Operations its supply, Finance its dollars — at the same table, at the same time. When it changes, they change it together, and they don't hear about it first from a customer.

Your cycle runs on four meetings, and one step of work comes before them. That step is the data: last month's actuals and this month's inputs,

pulled, frozen on a fixed day and tied to the ledger. Do it first, so your people spend the meetings arguing about the business instead of about whose spreadsheet is right. Then come the four meetings, in order.

1. In the demand review, Sales and a demand planner agree on what customers are going to order, family by family, for the next eighteen months — unconstrained, which means before anyone asks whether the plants can make it.
2. In the supply review, Operations tests that demand against the plants and the suppliers, names every gap and prices the ways to close it.
3. In the pre-SIOP, the SIOP lead brings the heads of sales, operations and finance together to reconcile units with dollars. They settle what they have the authority to settle and turn whatever's left into decisions, each with its options, its costs and a recommendation.
4. In the executive SIOP, the leadership team, with you in the chair, makes those decisions once and writes them down.

A day later the plan goes out — into the master schedule, purchasing, the sales plan and the financial forecast. Figure 01-02 lays the month out by business day.

Three things on the bar beneath that month do most of the work. Why eighteen months and not twelve? Because the decisions that matter most (a shift, a second supplier, a price) take months to put in place. With a plan that stops in December, you're flying blind by summer, just when next year starts to matter. The plan counts units because your plants build units. It carries dollars to the gross margin line because your Board reads dollars. And a plan that never reaches gross margin can't tell you what a decision is worth until after you've made it.

Five things already in your company can look like SIOP, and none of them is. A report-out goes over the month and decides nothing. Daily scheduling decides what runs tomorrow, which belongs to the master scheduler and should stay there. A firefight is an hour spent on this week's shortage. The budget is a promise made to the Board once a year, and SIOP is the monthly check on whether you can keep it. And a software project starts with a purchase order. We ran Riverton's first cycles on spreadsheets and the tools we already had.

Every month you hold the cycle, you get one number, with the people who own its parts on record behind it. The trap is a calendar full of meetings and a log with nothing in it. If a cycle ends without a decision written down, it was a report-out that took four meetings instead of one. Your leaders will notice that before you do.

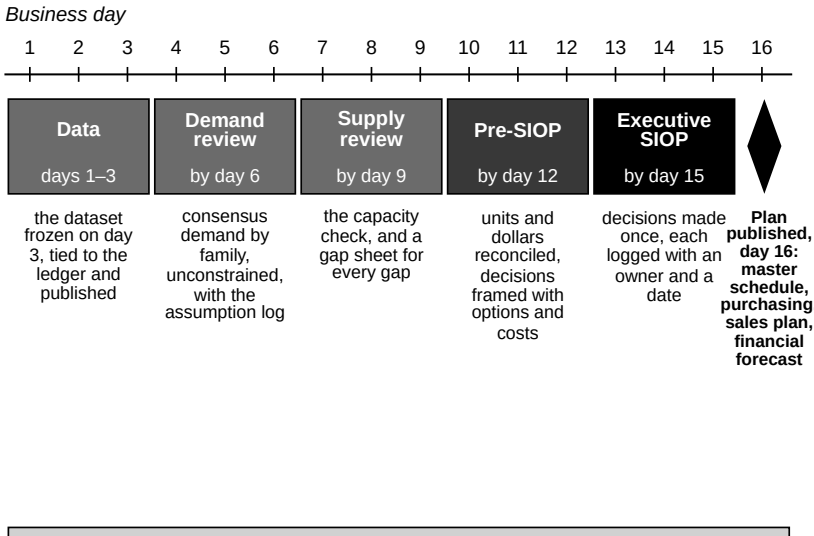


Fig. 01-02: The SIOP month: a data step and four meetings across about three weeks of business days, each step producing what the next one needs, and together one plan for eighteen months, in units and dollars, to the gross margin line.

The SIOP Charter

Announcing one plan takes a minute, and the announcement lasts until the first month somebody's number loses. Then the old plans come back, because they hadn't gone anywhere.

What holds the decision in place is the SIOP charter: one page, signed by everyone named on it. It says who owns the plan, who runs the process, who sits at the table, what the table decides and what it won't touch. It does for the process what a deed does for a piece of land — it names the owner and draws the boundary lines. You need seven things on it.

1. An executive owner — you, not the chief financial officer and not the head of operations, because when the numbers disagree, whoever breaks the tie must outrank every one of them.
2. A SIOP lead: a named person with the time to do the job, which means at least half of one person's time and all of it if you can find it. Your lead runs the process (the calendar, the dataset, the pre-

SIOP, the pages for the executive meeting) and, by design, owns no number in the plan.
3. Members, named by seat rather than title: whoever owns the volume, whoever owns the supply, whoever owns the money, the people who run the plants and buy the material, and the planners who do the work between meetings. Every member comes with the authority to decide for that seat.
4. Four decisions, the ones the executive meeting exists to make: approve the demand plan, approve the supply plan and its costs, approve the financial plan and the gaps to target, and decide what the levels below couldn't.
5. A scope: which families, which plants, how far out and at what level of detail. Plan in families, and go down to the SKU (stock-keeping unit) only by exception.
6. A calendar, with every step of the month set by business day, so everyone knows when the next one is.
7. A short list of what the cycle won't do. It won't schedule the plants by the day, rewrite the budget or hear status reports.

I'd rather name seats than titles, because a title changes the day somebody is promoted. A seat doesn't, and your charter has to outlast the people who sign it. Then ask the harder question. Who in your company could be the lead — someone with the time, the trust of Sales and Operations, and no number of their own to protect? If the only candidate is already doing two jobs, you've found the first decision the charter calls for, and it's yours.

Read the four decisions again, because they're the reason for the whole page. Three of them put the leadership team's name on demand, supply and money, in that order, every month. The fourth is what makes the meeting worth your time. Anything the planners, the plants and the pre-SIOP couldn't settle comes to you framed and priced, and it leaves decided.

A one-page charter settles who decides before anyone starts arguing about what to decide. Keep it to that one page. A charter that spills onto a second page has started describing the process instead of authorizing it, and the second page rarely gets read.

The Starting Line

One more page belongs in the first week, and it's the one most teams skip because it's uncomfortable. Where are you starting from?

For that I use the maturity scorecard. Think of the departure fix a navigator takes on the way out of the harbor — one position, marked on the chart with the time beside it, before there's any open water to get lost in. It says nothing about where the ship will end up. It's the point every later position gets measured from, and a navigator who skips it can tell you where the ship is but never how far it has come. You score eight areas, each at one of four levels from 1 (lagging) to 4 (leading). Level 1 means the area is missing, or done by one function for itself. Level 4 means it runs every month, across every function, on evidence anyone can check. Levels 2 and 3 are the ground in between, and Chapter 11 maps it area by area.

In order, the eight are the *consensus demand plan*, the *integrated supply plan*, the *integrated financial plan*, *dedicated, capable resources*, *effective governance*, *integrated, balanced metrics*, *demand, supply and financial information* and *analytics and enabling tools*. Before its first cycle, Riverton scored itself a 2 on three of them (the supply plan, the information and the tools) and a 1 on the other five. Eleven points across eight areas is an average of 1.4.

Score it with your leadership team in one sitting, one level per area, at the level you can show rather than the level you intend. Put everyone who will sit at the executive meeting in the room, because the people who score the process are the people who'll have to raise it. If you're not sure, round down. Date the page and keep it. It takes an hour, and it's the only baseline you'll ever get, because by the second time you score yourselves, you'll already be different. It's a starting line, not a grade. Nobody earns a 3 in the first month, and if your team claims one, it's scoring what it means to do, not what it does today.

Riverton

We left the February 20 review without a second-quarter number, which meant leaving without every decision that hung on one. There was no shouting. Three numbers went up, everyone nodded at all three, and we moved on to the next page. That's how a company keeps three plans for years without ever deciding to. I spent the next three days on a question I should have asked a year earlier. Who at Riverton owned the plan? Nobody did. Dennis owned a forecast, Joan a budget and Curt a schedule, and I owned the results, which isn't the same thing.

On February 23 I decided: one plan, monthly, starting in March. I could have waited for April and started the second quarter clean, but the second quarter was the problem. I told the three of them together,

so that none of them heard it second-hand. “There will be one second-quarter number,” I said. “It gets made in a room where all three of you are sitting, and the plants build to it.”

Each of them asked the question that went with the seat. Dennis asked whether his forecast would be trimmed to fit the plants, and I said no — the plants would finally read it. Curt asked who would carry the cost if the plants built to a number that turned out high. The plan would put a price on every decision before we made it, I told him, so he wouldn’t be carrying a cost he hadn’t seen. Joan asked which number would go to the Board, and I said both, side by side, each with its label.

Then I asked Joan for Megan Albright, her financial planning and analysis (FP&A) manager. Megan had built the budget, she knew the ledger and the standard costs, and she could sit between Sales and Operations without owning either one’s number. I wanted all of her time. Joan agreed, and then told me what it would cost her month-end, which was fair.

Four days later, on February 27, we signed the charter, and it fit on one page. It named me as the executive owner, Megan as the SIOP lead, full time, and nine members by seat. Joan owned the money, Dennis the volume and Curt the supply. Wade Cutler and Sharon Keene ran the plants at Muncie and Joplin, and Teresa Amato ran purchasing. Ethan Haas would move from inside sales to full-time demand planning in March. Irene Tamberg, Muncie’s master scheduler, would be the supply planner for half her time, and Gavin Stroud, an analyst on Megan’s old team, the finance partner for a third of his. The page carried the four decisions word for word and set the scope at three families (Drives, Rollers and Kits), two plants and eighteen months, with SKUs only by exception. And it listed the three things the cycle wouldn’t do.

Before anybody left that afternoon, we scored ourselves. Dennis made the case for a 2 on the consensus demand plan, because Sales sent the plants a forecast every month. Curt pointed out that the plants built to the master schedule. We wrote down a 1. Three areas earned a 2. Irene’s master schedule carried the supply plan, and the enterprise resource planning (ERP) system held thirty-six months of shipment history by family. As for tools, Gavin’s spreadsheets were better than they had any right to be. Everything else was a 1, and Megan wrote 1.4 at the bottom of the page, dated it and kept it.

March would be the first cycle, with the data frozen on business day 3. We got it on day 6, three days late, and Chapter 2 tells why. From March on, a request like Wade’s had a place to go, the supply review,

and a date by which it would be answered. Over all of it sat Corvane's request for 650 drives and 18,000 rollers a month. Riverton's quote was already in Corvane's hands, and we still couldn't say when that volume would start or whether Muncie could build it. We had a page, a lead and a date. We didn't have a number.

From the Record

Until noon on November 18, 1883, the railroads of the United States and Canada ran on some fifty railroad times, and the towns along their lines kept hundreds of local times of their own. Every one of those clocks could be defended, and none of them answered to the others.

William F. Allen, secretary of the General Time Convention and editor of the *Travelers' Official Railway Guide*, presented his plan on April 11, 1883. He sold it with two maps. One was crossed by almost fifty colored lines, and the one beside it showed four broad bands. The second map was the whole argument. He mailed the plan to 570 railway managers, and on October 11, in Chicago, the Convention adopted it.

On November 18 the change was made at noon, by the new standard time. The Naval Observatory changed its telegraph signals at noon, and the railroads of both countries moved to four standard zones. (Allen's plan had five, but the Intercolonial Railway kept Eastern time.) Places east of their zone's meridian heard noon twice — "the day of two noons." In Chicago the clocks moved about nine minutes. Allen was in New York: "I heard the bells of St. Paul's strike on the old time. Four minutes later, obedient to the electrical signal from the Naval Observatory ... the time-ball made its rapid descent, the chimes of old Trinity rang twelve measured strokes, and local time was abandoned, probably forever."

Federal law caught up only with the Standard Time Act of March 19, 1918, thirty-five years later. The railroads hadn't waited for Washington. Fifty honest clocks had given them no time at all.

Do This

1. Run the three-number test this week and write down the spread.
2. List every decision now waiting on another function's number, with how long each has waited.
3. Name the SIOP lead and give the job at least half of one person's time.
4. Write the charter on one page: owner, lead, members, the four decisions, scope, calendar and what the cycle won't do.
5. Score the eight maturity areas with your team, one level each, and keep the page.
6. Put the first executive SIOP on the calendar four weeks out and chair it yourself.

Give the business one clock, set once, that everyone reads. The first thing the cycle needs after that is numbers everyone agrees are the numbers, and that's Chapter 2.