

INFORMATION CONNECTS

JD Edwards EnterpriseOne Demand Management



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Leaders evaluate business processes first—then consider technology and software. They make deep process improvements to cut manual steps, redundant data entry, and multiple interfaces. They focus on competitive advantage and customer service. And they bring these business processes online in real time.

Building a real-time enterprise begins with digitization of business processes for consistent results based on best practices. You connect customers, suppliers, partners, and employees. You integrate across locations, functions, and departments. You break down silos of information to create a single system of record. And when people, processes, and data run in real time, you improve your bottom line.

The Power of Effective Demand Management

Many industrial companies can really only guess at demand. A fortunate few may have backlogs that are firm enough to give them confidence over several months, but the majority struggle to pin down the next quarter's order picture. As a result, many businesses carry far more inventory than they should—incurring both time and inventory costs. They are unable to adapt quickly to market changes. They find it hard to predict what customers want, and when, and consequently they cannot easily keep up with customers' demands.

The problems are external and internal and are becoming more acute at a time when they should be getting better. Demand signals are much more volatile these days, due in part to overall economic uncertainties and to greater visibility up and down the supply chain. Customers regularly alter orders at the last moment—or cancel them altogether.

Businesses aren't happy with such murky pictures of demand. But they can't push all the blame outside their organization. For the most part, they collaborate poorly, sharing small amounts of data with suppliers and requesting little from their customers. In a survey by consultancy Bain & Co. (Why Companies Flunk Supply-Chain 101, Miles Cook, Bain Strategy Brief, May 15, 2002), only 15 percent of companies say they have full information on the performance of their own supply chains, and only three percent report that they've got good data on the performance of their entire supply chains, which includes the activities of customers, vendors, and distributors.

Those that put more emphasis on forecasting usually do not have much better luck. Their forecasting practices are narrow in scope, and their tools—which can be as rudimentary as Excel spreadsheets—are not powerful enough to handle complex market dynamics. Inflexible but pervasive, business processes make it difficult to change.

Fortunately, there is good news. Some businesses are finding an advantage in “pull” processes. Powerful, flexible new software applications are emerging to provide dynamic engines for those demand-driven processes. The leading practitioners are attuned to the leverage that forecast accuracy can have on costs. They strive for accurate, “single number” forecasts because they understand how such forecasts can lower inventory, reduce stockouts, quicken market response, and improve customer satisfaction.

To reach for those goals, leading companies are applying disciplined demand management processes by using the right tools. Forecast accuracy is improving by five to 10 percent when they turn to statistical forecasting techniques powered by software that not only evaluates historical demand trends but also can calculate the impact of sales promotions, price cuts, and other causes of demand spikes. To push for 20 percent better forecast accuracy, the leaders are adapting their business processes to collaborate more fully with customers and suppliers.

Oracle's JD Edwards EnterpriseOne Demand Management offers a range of internet-enabled software to drive effective demand management initiatives. One key application, Oracle's JD Edwards EnterpriseOne Demand Forecasting, uses powerful technology to give accurate yet easy-to-use forecasts while the companion application, Oracle's JD Edwards EnterpriseOne Demand Consensus, continuously improves forecast accuracy with its collaborative capabilities. At a strategic level, Oracle's JD Edwards EnterpriseOne Strategic Network Optimization models complex supply chains, handling big-picture "what if" scenarios that factor in all relevant costs and potential constraints. At a tactical level, Oracle's JD Edwards EnterpriseOne Production and Distribution Planning creates supply chain visibility in real time for customers and suppliers, enabling greater accuracy between planning and execution and faster reaction to changes in supply and demand. The applications integrate smoothly with each other and with other operations applications, helping to make planning a collaborative process not only among internal departments but also with customers and suppliers.

The Demand Management Story

Acknowledging the Merits of a Forecast Process

CEO Phil Bream isn't denying that his company's delivery performance has been poor. But he's adamant that Kleen-Klass has been part of the problem all along.

It might be different if there were still some business to be had. But now that Bream's company is being dropped as one of Kleen-Klass, Inc.'s top three surfactant suppliers, it makes him angry to think that the household cleaning products maker had rarely placed an order without significantly altering it soon afterward. And, unlike his other two top customers, Kleen-Klass had never given even a hint of its retailers' point-of-sale data.

Driving away from the Kleen-Klass meeting, the CEO resolves that Bream Chemicals LLC will make its brand synonymous with flawless delivery; the company will have the best forecasting systems in the business. If that means Bream works mostly with customers that understand the value of sharing data, so be it. The net results ought to be worth several points of profit margin. His challenge now is to get the company to that point, and get it done quickly.

The following week, the numbers displayed at the staff meeting make it obvious that Bream has far to go. The company's demand forecasts are 30 percent accurate at best, and its lead times are at least 45 percent longer than those of the competitor that won Kleen-Klass' business. The CFO adds to the anxiety in the room when he describes the recent meeting with a leading investor, who had some very tough questions about return on assets of Bream's capital equipment. "I had no good answers for him," he reports. "We've got to bring down operating costs by eight percent over the next two quarters. But we have no chance of improving return on assets if we can't get better at capital asset planning. Somebody tell me how we do that with the kind of forecasting we're doing."

It's an abrasive meeting. It's clear that several managers believe it's someone else's problem. There are several broad hints that the sales department could be doing more to sharpen forecast accuracy. Sensing that not much progress will be made in that environment, the CEO sets another meeting to be led by his manufacturing lieutenant, Frank Fiore.

Fiore makes a deft move. To ease tensions and get a sound outside perspective, he brings in two consultants to talk about forecast best practices. The consultants—whom Fiore has worked with before on supply chain projects—lay out a detailed best-case approach, showing what it takes first to commit to and build a sturdy internal process for forecasting and then gradually to bring in dynamic information from outside—including hard data from customers.

The idea of a process for internal forecasting intrigues several managers. Nobody in the room doubts the results that the consultants describe, but the executives have plenty of questions about total program costs, the time it takes for a program to become truly effective, and the potential failure points. But what sparks the longest discussion is the concept of a single forecast, with each department abandoning its own interpretation to support an agreed-on "single number."

After the consultants leave, there is a quick commitment to a demand management initiative. The team does not have to look far for a project champion; Fiore gets the job.

Preparing an Effective Internal Forecasting Process

Bream's Sales VP, Tim Johnson, doesn't believe he has to rethink how his team gauges demand. He has viewed the slipshod delivery issues as Manufacturing's problem. But he's not happy about the lost business, either; Kleen-Klass had been one of his top customers for the past six years. When the call comes in from Frank Fiore, he agrees to hear what the project head has to say.

Fiore's pilot plan involves a two-step program that deploys JD Edwards EnterpriseOne Demand Forecasting and Demand Consensus applications within Bream, and, six months later, a collaborative forecasting process with select Bream customers. The goals are high: have forecast accuracy above 75 percent inside six months and on-time deliveries above 95 percent in a year. He has had positive experiences with Oracle's JD Edwards EnterpriseOne manufacturing management software—it has proved easy to use, with low total cost of ownership—and his proposal had gotten a thumbs up from Bream's IT chief. Fiore is eager to get going with applications that integrate with his manufacturing operations. He has heard very good things about the technology that powers JD Edwards EnterpriseOne Demand Forecasting's accurate "tournament forecasts"—an automated forecasting engine for leading-edge statistical models that improve forecasting accuracy without adding analytical staff.

It starts as a "yes, but" conversation. Every point Fiore makes gets a defensive answer. Johnson's fiercest response is about business process—the new comp plan he built nine months ago that's based on his department's sales goals, which in turn are based on the sales team's cumulative estimates. Fiore walks the sales chief through a demo of JD

To dramatize the idea of an effective demand management program, we use the following fictional scenario: Bream Chemicals LLC, a fictitious surfactant producer, has just lost a large supply agreement with one of its best customers. And it is under growing pressure to cut its operating costs. The story shows how Bream combines commitment to superior forecasting with powerful web-based supply chain software to improve its delivery performance and asset utilization.

Edwards EnterpriseOne Demand Consensus, showing how the software's powerful algorithms gauge the historical accuracy of each forecast contributor and then weigh future unified forecasts toward the contributors whose forecasts have proved most accurate in the past.

Johnson quickly imagines a new incentive program that engages his regional managers in a competition for forecast accuracy. He agrees to get them to start feeding a shared forecast with the opportunity and pipeline forecast data from the sales force automation software they'd begun using a year earlier.

Next stop for Fiore is Strategic Planning, where Ray Messner, Bream's planning manager, is looking distinctly annoyed. He's not thrilled to be hearing from the guy whose department has, in his opinion, been largely to blame for Bream's delivery problems. Little has changed in Messner's work world; his "official" forecast is still maintained on a large spreadsheet. Each month, he analyzes and manipulates the data by looking at incoming business, reviewing past history, and using his judgment of what is going to sell. He then passes his conclusions on to Manufacturing so that it can build its own schedules. And he converts the data into financial forecasts, which he sends to Phil Bream and the rest of the management team.

Messner knows quite well that the company's forecasts are woefully inaccurate, and he is only too aware that "silo forecasting"—each department putting its own spin on things—is not only time consuming and conflict prone, but it locks the company into inflexible routines that reflect neither the unpredictability of the marketplace nor Bream's own business rhythms. Messner gets no satisfaction from pointing to others' forecasting gaffes, but what else can he do?

Fiore is already painting a picture of what Messner's job can become—regular collaboration on a shared forecast that will make Bream markedly more successful. Fiore describes how the JD Edwards EnterpriseOne Demand Forecasting and Demand Consensus software will work and how Messner can play a lead role.

Seeing Early Results from Better Internal Forecasting

Four months later, Phil Bream is getting another update from Fiore. The project chief points to his laptop, where Oracle's JD Edwards EnterpriseOne Supply Chain Analytics has summarized a report from the JD Edwards EnterpriseOne Demand Consensus data. "Look, Tim Johnson has gotten all his regional sales managers on board with this, and already the best guy is turning in forecasts that are nearly 20 percent more accurate than what those guys were doing six months ago."

Fiore credits Johnson's new incentive program and also explains how integrating their sales force automation forecast information into JD Edwards EnterpriseOne Demand Consensus has really helped to quantify the sales outlook. In addition, for those areas that are not using the CRM software, the easy-to-use Excel interface allows the remaining sales staff to

upload their forecast data directly into JD Edwards EnterpriseOne Demand Consensus. Although the sales people are not yet wholehearted converts, they are participating well. Phil Bream has not had such a detailed look at how the software's Forecasting Competency Index works. "Let's see if I've got this right. Whoever has been the best forecaster will contribute most to future forecasts, yes? So if Mr. A's forecast is usually accurate 90 percent of the time, and Mr. B averages 75 percent forecast accuracy, then JD Edwards EnterpriseOne Demand Consensus learns to give more weight to Customer A's projections, right?"

Fiore nods, and opens another window, showing the CEO how Product Management is quickly becoming a valuable contributor to the converging forecast. With the demand management software giving them better visibility into Sales' view of demand, Product Management has been able to more precisely target a new pricing promotion for key cleaning products customers—and for 15 percent lower cost than previous comparable programs.

The report on Fiore's own domain—manufacturing—demonstrates some progress, even though the production guys have only grudgingly begun to accept and use the reconciled forecast as they see the forecasting metrics improve. More persuasive proof points are starting to show. As Manufacturing starts to plan and execute to the reconciled forecast and use the statistically based safety stock, they are starting to reduce inventories. So far, raw material stock is down eight percent from levels two quarters earlier.

The planner, Messner, is noticeably more cheerful. No doubt now that he knows his job; JD Edwards EnterpriseOne Demand Consensus proves it. His Forecast Competency Index stats are far more accurate than anyone else's. Messner is also delighted with the reductions in clerical work—reentering data and poring over manual entries—that used to lengthen his workdays. With the time gained, he can thoroughly analyze the root forecasting problems. To start with, he keeps checking on the results of the software's statistical engine, trying other types of engine and data overrides, but he has found that the engine works better than his corrections almost all the time. Now he knows what few exceptions he needs to focus on.

Phil Bream has already heard from the finance department. They're pleased. With the forecast conversion to financial figures now automated, the staff can quickly make their own adjustments and analysis on the same data set, keeping track of their changes.

What the CEO is seeing is what the consultants had described: a move toward a unified, reconciled forecast that blends input from planners, salespeople, marketing staff, and others—all of it managed by powerful and flexible software that integrates readily with other operations applications. Bream had not authorized a large budget for the demand management program. According to Fiore, the software is proving to be very cost effective, with low licensing costs and minimal training and maintenance costs because so many of the data models are shared. "If we can hook up with customers that really understand this stuff," says Bream, "we'll be unstoppable."

The software's powerful algorithms gauge the historical accuracy of each forecast contributor and then weigh future unified forecasts toward the contributors whose forecasts have proved most accurate in the past.

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Adding External Data to Sharpen the Forecast

Bringing in data from customers is not as difficult as Fiore had anticipated. Mag Precision Fluids, Inc., a major supplier to oilfield service companies, is the first customer to begin sharing sales forecast data, based in part on the strength of a presentation on how much Bream has been able to improve internal forecast accuracy. Already, Bream's sales managers are chalking up forecasts that are at least 70 percent on target.

Johnson and Fiore have been very selective about the customers they believe will understand the benefits of a coherent demand management initiative. Mag has been keen to collaborate; its purchasing chief expects to see prices drop five percent in the first year as a result of the program. Mag moves carefully. It will pilot its involvement with a third-quarter forecast of 5,000 gallons of surfactants for its Houston plant.

Initially, Mag uses the secure integration link to transfer its forecasts from existing spreadsheets directly into JD Edwards EnterpriseOne Demand Consensus. Bream's planner, Messner, begins sending Mag a monthly forecasting report showing how well its submitted forecast meshes with Messner's statistical forecast and with Bream's reconciled "single number" forecast. After three months, Mag's purchasing director feels comfortable enough to begin reviewing the results directly using the internet-based JD Edwards EnterpriseOne Demand Consensus tool—particularly the Collaborative Conference Room feature.

Mag is joined by two other key customers. Soon, data inputs from all three are being collaboratively reconciled to a single enterprise forecast. Each customer now has access via the Collaborative Conference Room to its own secure forecast and reports, as well as to the internal Bream forecasts that Bream wants it to see. The security features are important; the software easily manages the complex slicing of data so each customer sees only the data that relates to its products.

One exception pops up early. Now that Messner can collaborate directly with customers by using the internet, he sees that Mag's third-quarter forecast is quite a bit off from its prior-quarter forecast. Drilling into the exception, he discovers more information that Mag has provided about a big new push it is making to a new Venezuelan customer. That prompts Messner to run a "what if" scenario to see what effect similar activity by the other two customers would have on Bream's ability to meet demand. He tracks historical demand to gauge the customers' forecasting patterns, and pulls in new forecast data from the marketing department.

Driving On-Time Delivery with the Final Forecast

Three weeks after Bream wins the 8,000-gallon-per-month business from Mag, the first hard order forecast comes in and is reconciled by using the collaborative demand management software. Then the software automatically communicates with JD Edwards EnterpriseOne Production and Distribution Planning application, which generates the first manufacturing plan.

Meanwhile, Mag has clinched major new business from a Russian oil-services company and now wants to pull its large initial orders forward by two weeks. Project Chief Fiore logs on and sees that the JD Edwards EnterpriseOne Production and Distribution Planning software has accepted the order revisions and has confirmed availability of raw material inventory and production capacity. The system will provide real-time alerts of any problems, ensuring that the demand can be met.

The first Mag delivery arrives right on time— just as the first shipments for the other two customers had done. In the space of 10 months, Bream's average on-time delivery performance has gone from 73 percent to 90 percent, and its forecast accuracy is up to more than 78 percent, with refinements to the demand management process coming in every day.

Results

Eighteen months later: Tim Johnson is quick to email the news of Bream's "Supplier of the Year" award from Mag Precision Fluids. That's the headline news, but the sales chief makes sure his contacts see the part about Bream's 96 percent on-time delivery record at a five percent lower price. The copy that goes to Kleen-Klass has a special handwritten note that says Bream would welcome the opportunity to quote Kleen-Klass' business again. With the new processes Bream has in place, it is confident it could hit every delivery window— and save seven percent a gallon compared to last year's numbers.

Phil Bream has other reasons to celebrate. With cohesive forecasts in place, his CFO has been able to leverage Oracle's JD Edwards EnterpriseOne Strategic Network Optimization software to better model different supply chain scenarios. The first part of the exercise had identified new workflow paths which had brought asset utilization rates up substantially, increasing average effective capacity at Bream's three plants by six percent and lowering unit costs by 11 percent.

Bream and his management team are sitting down to map out the next phase of collaboration with Mag when Johnson gets a call from his Western region sales manager. "Kleen-Klass wants us to come in," Johnson reports. "Their new purchasing chief is very interested in talking."

Oracle is committed to ensuring customer success and satisfaction by building quality products and delivering cost-effective, results-oriented service and support based on the unique organizational needs of our customers.

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Oracle Global Services for JD Edwards EnterpriseOne

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ORACLE®

Oracle Corporation

World Headquarters

500 Oracle Parkway
Redwood Shores,
CA 94065
U.S.A.

Worldwide Inquiries

Phone
+1.650.506.7000

Fax
+1.650.506.7200

oracle.com

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