

Playing by the Rules

Combining flexibility with discipline, process playbooks ensure that businesses stay on track.

by Amarnath Thombre

While some might optimistically refer to today's business environment as exciting and dynamic, a fair description could also be chaotic and confusing. The average business is overwhelmed with demand fluctuations, emerging global competitors, pricing pressures and the skyrocketing costs of materials, labor and transportation.

These challenges are only compounded for manufacturers of trend-driven, technology-intensive products like consumer electronics because they must also contend with ever-shorter product life cycles, fickle consumer preferences and shrinking retail margins.

Every business has a top-level strategic plan, but today's volatile environment brings constant surprises that may throw that plan off course. In the face of these disruptions, it is becoming more and more challenging to remain focused on top-level goals and long-term objectives.

Faced with an unexpected market challenge—such as low sales volume in one region—many organizations go into firefighting mode, scrambling to run promotions, drop prices, shift inventory or take other drastic actions. However, because these actions are not rooted in thoughtful planning or analysis, they may not support top-level strategic goals. And, too often, these rash reactions can make a bad situation even worse. For instance, a regional drop in sales that is caused by poor weather or other localized conditions such as road construction near the store will only be exacerbated—not reversed—by aggressive product promotions.

While volatile market conditions are frustrating—and every business wants to take swift, decisive actions when faced with the unexpected—this business environment demands a greater level of precision and discipline than ever before. When inevitable surprises occur, businesses must be prepared. They must respond not with rushed decisions made in panicky, spur-of-the-moment meetings—but with predictable, predetermined actions that have a high likelihood of success and are reflective of the overall goals of the organization.

Staying focused as the game changes

Process playbooks—borrowing the term for the predefined sets of strategies and rules that guide athletes during competition—are emerging as the new standard for leading enterprises through today's ever-shifting business environment. Just as football playbooks help coaches and players make informed choices as the game progresses, process playbooks help executives analyze the current playing field—and respond appropriately to both obstacles and opportunities.

Whether they exist at the strategic or the tactical level, process playbooks are based on a series of three actions that occur in a continuous cycle:

- Monitor performance to identify any deviations from the strategic plan
- Perform root-cause analysis to clarify the underlying reasons for these deviations
- Take predetermined actions that address these root causes, bringing the enterprise back on course

While this may seem like a daunting set of tasks for the typical business—especially given the external challenges they face—powerful new supply chain management (SCM) tools and business processes are making it much easier to carry out this ongoing cycle of monitoring, analyzing and responding.

By leveraging those tools and processes to collect performance information from across the value chain on an ongoing basis, process playbooks reveal deviations at their earliest stage—before they significantly impact overall performance. And, because they take a holistic view of the global supply chain, process playbooks reveal connections that are not always obvious, making cause and effect transparent. For example, executives no longer have to guess the reason for low regional sales volumes; process playbooks make it clear whether they are caused by competitor promotions, geographic demand variations, materials shortages, supplier delivery problems or some other cause.

In determining the best response to these root causes,

process playbooks guide companies with a set of rules and contingency plans that have a high probability of leading to a specific outcome, based on best practices and historical performance data. Just as football playbooks are based on what worked in the past, process playbooks apply the accumulated knowledge within the business to achieve the best possible outcome. They enable executives to capitalize on the intuitive knowledge that already exists within any enterprise—but is useless unless it is systematically gathered, supported with technology and shared across the organization.

Because they apply a standard set of workflows, policies and rules, process playbooks eliminate the panicked, ill-considered reactions that can throw a corporate strategy off track. The response process is guided by logic and discipline, instead of emotion and best guesses. Process playbooks also guarantee a unified response from the entire business, eliminating any regional differences in process knowledge or expertise. All stakeholders within the business have an equal opportunity to learn from the monitor-analyze-respond cycle, so that the entire organization becomes better equipped to deal with the performance variability that has become an unfortunate fact of life.

Winning the game: Process playbooks in action

Because process playbooks help manufacturers choose the most profitable responses to adverse situations, virtually any business can benefit from these innovative tools. However, in i2's experience, certain kinds of organizations can achieve the greatest advantages.

Recently, i2 has worked with a number of businesses in the fast-paced consumer electronics industry to create and apply process playbooks that are helping them cope with dramatic demand shifts, regional sales variations, product stockouts and the other challenges associated with fast-moving, short-life-cycle products. In this extremely competitive marketplace, process playbooks help consumer electronics leaders gain market share against competitors—while also protecting their profit margins.

i2 is currently working with a major PC manufacturer to address a performance issue that is all too common in the consumer electronics industry: ensuring adequate inventory levels during product promotions. The PC trendsetter runs so many hugely successful promotions on its retail web site that it sometimes creates low inventory levels of its most popular hard drives, monitors and other product components. To maximize revenues and market share, i2 is working with the manufacturer to define those factors that lead consumers to choose a specific product or

component—such as default product configurations, upgrade offers and seasonal promotions. Based on this analysis, i2 is creating process playbooks that not only apply the right levers to increase sales of certain strategically important products—but also ensure an automated response as stock levels decrease. As a result, this PC leader will be able to create more strategic promotions that consider overall revenues, as well as profit margins, inventory levels and service levels.

i2 helped another consumer electronics leader—selling through a more traditional brick-and-mortar channel—address the issue of regional product stockouts. By studying the manufacturer's inventory and distribution systems, as well as retailer sales data, i2 recognized that products were not being allocated in a strategic manner, leading to inventory shortages in key markets. i2 created powerful process playbooks that ensure available inventory is sent to the most promising and highest-margin regions; these playbooks also enable responses to demand shifts and inventory changes in a predetermined manner that maximizes overall profitability.

These are just two examples of the enormous capabilities of process playbooks. By constantly capturing best-practice and historical data—and applying it to the organization's most pressing strategic and tactical challenges—process playbooks are virtual platforms that institutionalize the knowledge existing within every business. They facilitate a swift and certain response to unexpected performance issues, keeping the business on track and ensuring that the long-term strategy remains in sharp focus—even in a business environment where the immediate obstacles and opportunities are not always clear.

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Why a Process Playbook?

