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The four phases of integrated business planning

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Integrated Business Planning (IBP) is often seen as a natural progression from Sales and Operations Planning (S&OP), which came to life in the 1980s to align sales and operations. IBP features a monthly check and balance with the budget and the strategic intentions of a business. A well-executed IBP cycle will provide monthly visibility and measures progress against business objectives and strategy in the long-term horizon.

If a company wants to track its budget and strategy and we use this vision framework and IBP as the planning process to support the business, IBP can be defined with the following maturity phases:

1. Integrated planning

In this phase companies start to focus on integrated planning between previously siloed functional areas. Some functions are more advanced than others. A company might focus on state-of-the-art finance processes and systems, but doesn't reap the full benefits of that due to lack of integration of other functional areas into the finance process. Some integration exists, but not across all functional areas and there is not enough integration with finance to make a monthly financial prediction on EBIT level in the long-term horizon. S&OP as most define it will be in this phase.

2. Dynamic budget planning

In this phase, enough functional areas plan in an integrated way for the process to provide their input to the P&L to create a fully loaded forward projected P&L. Finance understands the volume input and the other functional areas understand the financial value planning. This will provide the company visibility on how it is tracking versus the budget or annual operating plan on a monthly basis on EBIT level. Why EBIT level? Because I heard too many times in a boardroom the argument, when only gross profit was on the table, "We can't decide on this because we don't have EBIT

number." We can also expect these companies to deliver monthly balance sheet and cash flow prediction. For these companies there is no separate budgeting or forecasting cycle. Every month can be the budgeting cycle. Dynamic indicates that opportunity and risk scenarios across all functional areas are integrated in the financial projection.

3. Dynamic strategy and capability planning

In this phase, the company has defined its strategic goals, measurements and targets and is capable to check and communicate monthly if they are on track to meet the strategy in the horizon beyond the budget. The strategic intent, which can be defined on lower levels like product segment, country or business unit level, will also guide in decision making for decisions in the budget horizon.

The company has also defined its core strategic capabilities to meet its strategy. There are many strategic capabilities possible. Ideally a company shouldn't have more than a handful as it will erode the focus on these capabilities. Some examples are:

- **Risk management**: For companies that have extended and complex networks that are sensitive and dependent for changes in global and geopolitical events. For example, companies with global supply chains, but also the finance industry.
- **Innovation**: For companies that in a highly competitive market can outpace their competitors based on innovation and new product development. Often seen in technology industry and CPG.
- **Commodity trading**: For companies that are highly influenced by commodity cycles as the commodities can be more than 80 percent of the COGS of their core products. For example food & beverage companies that have crops and livestock as core raw material.
- **Demand driven supply chain**: For companies that can get competitive advantage from driving their

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business from the front end of the supply chain. For example food, beverage and consumer package industry. Often in retail and consumer environment, which are promotionally driven and where POS information is available.

- **Knowledge management:** For companies highly dependent on knowledge workers and the exchange of knowledge between people and business units. Companies that have IP to integrate, sell and protect. For example Consultancies and software industry.
- **Supply exploration:** For companies that have to spend high amounts of capital to increase the supply of their core product. For example oil and mining industry.
- **Collaboration:** Collaborative IBP can be a separate phase for companies that see strategic advantage in collaborating with their suppliers and customer in the longer horizon and therefore want to integrate their business plans. For companies that have the power in the supply chain through size or uniqueness of offering this will most likely not be a strategic focus.

The list can go on and on with technology, sustainability, etc. Once a company has defined its strategic capabilities and has defined goals, measurements and targets for these capabilities, it needs plans to implement or improve these strategic capabilities.

An update of status, progress, risks and mitigations for those plans will be part of the IBP cycle in this phase. Dynamic indicates that sensitivity analysis around the plans to reach the goals of the strategic capability is part of the update.

4. Integrated vision and purpose

In this phase companies have well-defined purpose, values and an achievable BHAG with a vivid description that people can identify with and which create an emotional attachment. The company aims to integrate this with the IBP cycle. A company can decide not to pursue strategic opportunities because doing so would compromise their core purpose or values. A large multi-billion dollar beverage company for example, decided not to enter the very lucrative market of premium RTD's (Ready to Drink) alcoholic beverages, because the alcohol content was to high. Although the opportunity was achievable and margins were very interesting, the alcohol content would not be in line with their core purpose of "bringing more sociability and wellbeing to our world." The purpose guided decision making in the strategic horizon.

The company values and the emotional attachment will be tracked in the monthly IBP process and have actions, goals and measurement. Executives follow progress to understand if employees believe and identify with the companies values, BHAG and purpose, and show emotional attachment. This can be done by 360 degree feedback, engagement surveys and roundtable discussion between executives and employees. Executives also have to lead by example in behaviour and actions. Their own behaviour will have goals and measurements and progress is tracked.

For all phases communication is important, although it can be argued that it's most important when developing an emotional connection. An IBP document on key decision, outcomes, progress and wins in the IBP cycle can be communicated to a well-defined stakeholder group in the company. This will both give the stakeholders an understanding of business performance, priorities, improvement opportunities and successes, as well as keep the engagement with the company vision, purpose and the IBP process. Executives have to realize and appreciate that this communication document is the result of all the hard work from middle and lower management to gather all required IBP information for the executives to make decisions in the IBP meeting. This communication makes sure the IBP meeting is not seen as a 'black hole' which only sucks up information and doesn't provide feedback.

Once a company masters these four phases, it tracks and plans on a monthly basis the budget, the strategic intent and strategic capabilities, the company values and purpose and the emotional attachment of the employees. If a company then links these plans with shorter term plans and execution, we might call it real Integrated business planning.

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