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Introducing a Best Practice Sales Forecasting process

Knauf Drywall is one of the largest suppliers of gypsum-based building materials in the UK. The company manufactures a full range of plasters, plasterboards, insulating laminates, dry flooring, drywall accessories, and metal sections for domestic, commercial and public sector applications.

Knauf is a typical family firm in spite of its size and this is precisely the reason for its amazing success. It is the short and direct decision-making paths, the courage to tackle new ideas, innovations, investments and the wealth of ideas contributed by all Knauf employees, that characterises the company.

You headed a project aiming at formalising a Best Practice Sales Forecasting process within Knauf Drywall. This included some process design and training, for which Hughenden ran a number of workshops with your team. How would you describe your starting position?

“Like many Supply Chain practitioners in industry, neither I nor my two stock planners had had any formal training in our roles. One of my colleagues is a college graduate who has come into her planning role because I was looking for extra resources. So we lacked the wider experience that would have made us aware of processes available to us. What we knew about Supply Chain Planning was what we had learnt at Knauf.

About 3 years ago, I recognised that the way we were planning was not the best way of doing things. We did lots of fire fighting. I remember a situation in 2004, where we had not enough capacity on the plasterboard line to meet all the demand. We were unable to make long term capacity decisions because the exact product mix – bearing in mind our wide range of plasterboard products – would affect the capacity utilisation. As we were running out of stock everyday, we had to change the mix everyday. Luckily, we are flexible enough to do so but changing the mix so often was using even more capacity! We had crazy situations where we would run out of bags for the plaster... this is the equivalent of MacDonald’s running out of burgers!”

So how did you decide to tackle it?

“First, we looked at software systems to help us get better visibility. We looked at three different solutions and decided on one of them. We went through a one year implementation programme. But we did not get any new processes with it. The system is a good calculator and we get some good figures from it, both looking forward and on the historical data. But we felt that we were not using it to its full potential. Then we came across Hughenden at a conference. We had recently gone through the software upgrade with even more functionality. So we thought it was time to put some flesh around the bones of the system: we decided to put a formal Forecasting process into place.”

Were there any reservations about the initiative beforehand?

“KnaufDrywall is a consultant-shy business. In the past, we have tried to use consulting companies to implement a Sales & Operations Planning process. But we have always resisted anybody telling us how to run our business! Knauf prefers internal training because we want to keep the skills, not lose them. So Hughenden suggested that we could approach the

project from a training perspective. This made it easier for me: I could get my team to follow the training and, at the end of it, have the new process.

Someone had told me that now was a terrible time to explore a Forecasting process, because times were bad and I would have no idea what would happen. But I thought that now was an ideal time. In the past, we could afford to function without such as process. Now, we needed some of kind of forecasting in order to move forward, help us understand market trends, and make key strategic decisions.

In reality, before we started the project with Hughenden, I had no idea what a Best Practice Sales Forecasting process was. So I started with an open mind. As we went through it, it just made sense.”

What was the methodology that you followed with Hughenden and how effective was it?

“I was impressed right from the start. Hugh (*Hugh Williams, Hughenden Managing Director – Ed*) came and discussed the project with me at high level. Then Carol (*Carol Thomas, Hughenden Operations Director – Ed*) interviewed me, which was quite an experience: she helped me clarify what I wanted to achieve by the end of a 3-day workshop that we were planning for my team. I wanted the KnaufDrywall Sales Forecasting process to be defined. Carol then went on to interview my team in order to evaluate the level at which to pitch the workshop.

We were then given the outline and specification of what we would be doing. I thought that it was exceptional because we did not need to think about anything, apart from booking the training room. Hughenden then laid out the room to create an ideal learning environment. I have never been to a training course where so much attention to detail is put to the learning environment. From the explanation of the *5 Learning Steps* to the messages displayed on the walls... I thought that the whole process was excellent.

Then we got into the *nitty gritty*. We had made it clear to Carol that, because we had never been formally trained in forecasting, she would need to use basic language. I know that we had struggled with terminology in the past, during the software training for instance. But with Hughenden, the language that was used made it easy and clear to understand it all. Things were sinking in. I also could see it with my team that it was sinking in. There were only four of us on this workshop but it worked for us.

At the start of the training, I had asked the question ‘*can we implement a Best Practice Forecasting process in the Knauf culture?*’ Next thing I know, we were designing our own process! Hughenden facilitated the workshop in a way that exposed us to the Best Practices but then guided us to create our process. I liked that. It gave me and my team real confidence. In fact, we grew so confident that by the third workshop session, we called in the Commercial Director, Marketing Director and some factory guys to tell them what we were doing.”

It is said that Supply Chain Planning is 10% software, 30% process, and 60% people. What is your experience?

“If I lost any of my stock planners, my performance would drop and it would cost the company thousands. One of my challenges and reasons for putting in a software system and a formal process was to take information that is in their heads and put it into the process to protect the business. But I recognise that people remain key. There is a significant human element to the Forecasting and Planning processes, including some gut feel. A software solution does not work on gut feel.”

What changes on the ground has the Forecasting process generated?

“In 2003 our service performance was 94.6% for order lines from stock, in full. In 2007, this got up to 99% and it is now 99.3%. There is no doubt that we got better just from using the software system, even without any formal forecasting process. We were doing well, but it was about taking the final steps to do it more efficiently. Now, we are looking at doing the same for more difficult products using the new process. We will be able to provide plans to our suppliers to help them improve their delivery service to us.

Historically, when the market demand was buoyant, I could afford to do some extra production and just put it into extra storage. Now the situation has gone 180 degrees, and my remit is to drive the costs out. The new process is helping us be more efficient. We now plan two weeks production in advance and freeze it. We also provide the plants with twelve months advance plans for material and capacity planning. So they have visibility of the demand I will place on them in the coming months.”

Amongst the tasks that your team completed between the workshops, you made some policy changes as the direct result of an ABC classification. Can you tell us more?

“When we started work on the ABC Classification, I did not expect to spend much time on it but it turned out to be very useful to us. In preparation for the 3rd workshop session, we performed an ABC analysis of our products based on cost, volume and contribution. When we discussed the results at the workshop, our Marketing Director was very interested because he was going down the same route but he had only been looking at margin.

Basically, every January, the market puts through a price increase. So at this time of year, we review whether to stock certain products... Through the ABC exercise, we presented a view of what should be *stock products*, *extended lead-time products* or *specials*. With the new process, there is now direct and joined-up communication between the planners and the product managers in Marketing.

Also, we used the ABC methodology to go through the process with the plasterboard range, looking at Make-To-Order and at products where we were not making any money. Now we have a view by product and by customer on profitability. We would never have thought of going to that extent just a month ago!

The simple ABC/XYZ (*multi-criteria – Ed*) task from the workshop really made a big impact on us. The software system did an ABC classification for us but it was just done on volume so it did not give us much information. The Hughenden method adds more dimensions and opens up new levels of information and detail which are extremely useful.”

One last piece of advice?

“From my perspective, a lot of this project has been common sense. If you are sitting there and thinking that you can do it better, then you are probably right! With us, we just did not have the skills to understand *what to do better*. Asking for help can be a difficult step. Some companies shy away from consultants or even from training. If you have been doing your job for 10 years and you think you know a lot, it can be a big thing to ask for help. But I can tell you that you will reap the rewards if you take that step. There have been no mind-blowing changes to our business, but we now have a process that is making us much better at what we do. My advice is: be brave and do it because you will get benefits from it.”

Hughenden would like to **thank** Eric Dancer

for sharing his experience and advice

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