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Customer Demand Planning at Lucent Technologies

A Case Study in Continuous Improvement through Sales Forecast Auditing

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One of the critical drivers of supply chain success is effective customer demand planning. A company must be able to accurately forecast its business opportunities, and then effectively plan throughout its supply chain to exploit those opportunities. Unfortunately, many companies fail to understand the impor-

tance of effectively forecasting customer demand. This article presents a case study of one company—Lucent Technologies—that is committed to continuously improving its ability to effectively forecast customer demand. Lucent recently demonstrated that commitment by conducting a sales forecasting audit, performed by external experts, that has had a significant impact on its sales forecasting process and performance. The case study presents the process for conducting a sales forecasting audit, the benefits Lucent has realized from the process, the challenges they continue to face, and the factors that can be applied to other organizations. © 2000 Elsevier Science. All rights reserved.

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Customer demand planning is essential for supply chain coordination.

INTRODUCTION

One of the critical drivers of supply chain success is effective customer demand planning. A company must be able to accurately forecast its business opportunities, and then effectively plan throughout its supply chain so it can exploit those opportunities [1].

Unfortunately, many organizations fail to recognize the top- and bottom-line effects of poor customer demand planning. From a top-line perspective, companies cannot take advantage of demand for their products and services if, first, they fail to accurately forecast that demand and, second, they fail to develop and implement appropriate plans to build the required supply chain capacity to fulfill that demand. From a bottom-line perspective, effective customer demand planning allows a company to minimize its supply chain costs by minimizing inventory, purchasing, logistics, and production costs.

One large industrial company that has recognized the leverage available from effective customer demand planning is Lucent Technologies. The purpose of this paper is to describe the process improvements that Lucent Technologies has undertaken over the last several years, as well as the challenges that they continue to face. This company's experiences help to point out principles of effective customer demand planning that will allow other organizations to improve their management of this critical business process. It will also describe an audit process that has helped Lucent Technologies identify opportuni-

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ties for improvement, and provided a platform upon which fundamental organizational change can occur.

COMPANY BACKGROUND

Lucent Technologies was formed in 1995 when AT&T divided into three major businesses. What used to be several manufacturing units within AT&T, including Network Systems, combined with Bell Labs to become a new company called Lucent Technologies. Lucent Technologies primary product families now consist of Systems for Network Operators (revenues for the 12-month period ending September 30, 1998 of \$18.8 billion); Business Communication Systems (\$8.1 billion); and Microelectronic Products (\$3.0 billion). As a result of its recent merger with Ascend Communications, Lucent is now one of the leading global suppliers of data networking systems. Other major product lines include switching and access systems, wireless communications systems, optical networking systems, and fiber optic systems.

CUSTOMER DEMAND PLANNING

Lucent Technologies has established an organization, as well as a core business process, called Customer Demand Planning (CDP). The CDP process is defined as a business planning process enabling sales teams (and customers) to develop product/application demand forecasts as inputs to inventory and production planning, revenue planning, and services planning processes.

This definition indicates that Lucent Technologies has an enlightened view of the separate, yet interconnected, roles of forecasting and business planning. Many companies use the terms *forecasting* and *planning* almost interchangeably, but Lucent recognizes that they are separate, and sequential, processes. Forecasting is seen at Lucent as the process of developing the most probable view of what the level of future demand will be, given a set of assumptions about technology, competitors, pricing, marketing expenditures, and sales efforts. Planning, on the

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